

FINANCIAL TIMES

Wednesday July 4 1990

| Country | Index | Country | Index | Country | Index |
|-------------|--------|-------------|--------|-------------|--------|
| Austria | 10,000 | France | 10,000 | Italy | 10,000 |
| Belgium | 10,000 | Germany | 10,000 | Japan | 10,000 |
| Denmark | 10,000 | Greece | 10,000 | Netherlands | 10,000 |
| Finland | 10,000 | Ireland | 10,000 | Portugal | 10,000 |
| France | 10,000 | Spain | 10,000 | Sweden | 10,000 |
| Germany | 10,000 | Switzerland | 10,000 | UK | 10,000 |
| Greece | 10,000 | USA | 10,000 | | |
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| Spain | 10,000 | | | | |
| Sweden | 10,000 | | | | |
| Switzerland | 10,000 | | | | |
| UK | 10,000 | | | | |
| USA | 10,000 | | | | |

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World News Business Summary

President of Liberia says he will resign as rebels near

President Samuel Doe of Liberia agreed, in principle, to resign, as rebels attacking the capital Monrovia were fighting troops in the city's eastern and western suburbs. Page 6

Gulf peace hope

The foreign ministers of Iran and Iraq spoke directly to each other for the first time since the ceasefire in the Gulf War, raising hopes that their two countries will shortly resume talks on a peace settlement. Page 6

1,400 pilgrims killed

A total of 1,426 pilgrims died during Monday's stampede in a tunnel near the Meccan holy city of Mecca, Saudi Arabia's Interior Minister Prince Nayef bin Abdulaziz said. Page 6

Marcos ban to stay

President Corason Aquino, citing security reasons, refused to lift a ban on Imelda Marcos returning home, despite the former first lady's acquittal in New York on racketeering charges. Page 6

Korean advance

North and South Korea resumed talks after a five-month suspension and achieved a breakthrough in arranging an unprecedented meeting between the prime ministers of the two countries. Page 18

Obstacle to aid

Japan said it would not give economic aid to the Soviet Union until Moscow returned the Kuriles, four islands off northern Japan that were seized in 1945, but diplomats said Tokyo could be obliged to take part in any package agreed upon by next week's Houston summit meeting. Page 18

Chernobyl hero dies

Anatoly Geraschenko, the Soviet helicopter pilot who helped contain the Chernobyl nuclear disaster in 1986 by dumping sand over the smoldering reactor, died in a Seattle hospital after developing a serious lung infection. Page 18

German poll date

The East German coalition has agreed that all-German elections should take place on December 2, the date originally planned for West German elections. Page 3

Diplomatic deal

China and Indonesia agreed to restore relations on August 8, ending a break of 23 years and providing a diplomatic triumph for Peking. Page 6

France joins talks

France said it would for the first time attend talks on curbing the spread of nuclear weapons. Page 2

Envoy resigns

Israel's ambassador to Egypt, one of the country's most important diplomats, resigned, citing differences with Mr Yitzhak Shamir's right-wing coalition government. Page 6

Multi-party Angola

Hopes for a settlement in Angola's 15-year civil war rose as the central committee of the ruling MPLA announced that the Government would "evolve towards a multi-party system." Page 6

Miners' victory

Miners caved in to the demands of a group of striking coal miners, in the first test of the new Hungarian Government's resolve to face up to industrial lobbies. Page 2

Mandela rebuked

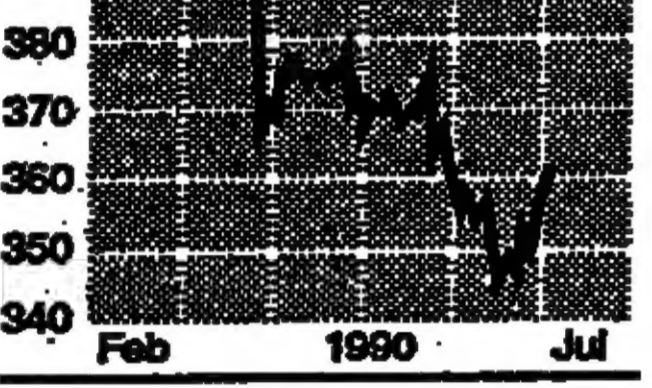
Nelson Mandela, deputy president of the African National Congress, was sharply rebuked at the start of a two-day visit to Britain for his advocacy of talks between the British Government and the rebel Irish Republican Army. Page 6

Chemical companies accuse EC of 'hostility'

LEADING biotechnology companies have accused the European Community of "political hostility" and of driving commercial investment out of the EC towards the US and Japan. Page 18

Gold price

MARKETS: Gold moved above \$360 a troy ounce on the London bullion market. Spot gold closed at \$361.50, up \$4 an ounce. The rise follows Monday's \$4.75 advance and the



price has now risen by \$11.75 in a week. Page 30. Tokyo: the Nikkei average closed with a gain of 254.37 to the day's high of 32,414.60. Back Page, Section II

ICI, Imperial Chemical Industries, Britain's biggest manufacturer, unveiled a 2450m international plan aimed at expanding its business in acrylics plastics. Page 18

SIEMENS, West German electrical and electronics group, is expected to replace Horst Nasko as the chief executive of Nixdorf, the loss-making computer company it is acquiring, with one of its own managers, Hans Dieter Wiedig. Page 18

GEC, General Electric Company of the UK, announced pre-tax profits for the year to 31 March of \$272m on turnover of \$2.19bn. Page 19

UACV, Uganda Air Car Carriers, a joint venture shipping company partly owned by one of the oldest Norwegian shipping families, has been sold to Nippon Yusen, Japan's biggest shipping company, for about \$170m. Page 20

AFRICOT Computers, UK-based personal computer manufacturer bought three months ago by Mitsubishi Electric, is to become the Japanese company's centre for the desktop computers. Page 18

CAP Gemini Segret (CGS), French computer systems group, is in the early stages of planning a big reorganisation of its management structures across Europe. Page 22

SPANISH industry minister Claudio Aranzadi is to hold talks with the Bonn Government in an effort to salvage the acquisition of Euzaco, Spain's biggest truck producer, by Daimler-Benz and MAN. Page 19

ARGENTINA'S planned privatisation of Aerolineas Argentinas, its national airline, has been thrown into confusion with the withdrawal of the Italian carrier company Alitalia. Page 22

CHILE plans to boost the value of exports over the next five years from the equivalent of 30 per cent of GDP to 35 per cent. Page 4

NORWAY and the US have become embroiled in a trade dispute which has prompted the US to levy a countervailing duty on imports of Norwegian farmed salmon which the US alleges is subsidised in violation of GATT. Page 4

AMB, Aachener and Münchener Renteversicherung, West German insurer, is raising \$268.8m through a rights issue which likely to be taken up entirely by Fondiaria, the Italian insurer. Page 20

Gorbachev plans under threat as hardliners hijack party congress

By Quentin Peel in Moscow

PRESIDENT Mikhail Gorbachev was forced last night to use all his personal authority to prevent a serious defeat at the Soviet Communist Party congress, after a string of setbacks at the hands of disgruntled delegates.

His intervention to take direct control of the crucial commission drafting new party rules came after a day in which the gaping divisions in the Soviet party leadership were exposed, and the danger of open rebellion from conservatives and radicals reinforced.

The first assault came from Mr Yegor Ligachev, the leading conservative in the ruling Politburo, who denounced any suggestion of private property in the party platform. Mr Ligachev was then elected by the congress as chairman of its agriculture commission, against the man backed by Mr Gorbachev.

An emotional defence of perestroika both at home and abroad by Mr Eduard Shevardnadze, the Foreign Minister and one of the Soviet leader's closest allies, brought far less enthusiasm from the floor.

Then the congress delivered a resounding defeat for any mention of a "market economy" being used in the instructions for the party's economic commission, with barely one-fifth of the delegates voting in

favour. The setbacks for the Soviet leader, who opened the congress with a fierce defence of his plans for a market economy, came as negotiations for an alliance between the centre and democratic left of the party were stepped up, in a bid to isolate the conservative majority.

He was forced to take the chair of the meeting after a stormy session saw a series of



Eduard Shevardnadze, Soviet Foreign Minister, puts up an emotional defence of perestroika

proposals from the platform defeated. When it became clear that his candidate to head the vital rules commission - the body which must design the entire overhaul of the ailing party structure - would be defeated, he put himself forward for the job. Even then, more than 1,000 delegates dared to vote against him.

The series of reverses began when Mr Ligachev took the podium to defend his conserva-

tive stance, both on his agriculture portfolio in the party, and in defending Marxist-Leninist orthodoxy.

He condemned a planned reform to include "earned private property" in the party platform, saying the distinction was semantic and private property divisive. Selling off public property was no way to "fulfil the potential of socialism," he said.

He rounded on a statement WEST GERMANY expects central government borrowing to fall to roughly one-third of 1990-91 levels by 1994 as a result of buoyant economic growth spurred by German unity. Mr Theo Waigel, Finance Minister, said yesterday.

Presenting 1991 budget plans approved by the Bonn cabinet, Mr Waigel said West Germany's central government net borrowing requirement was likely to rise slightly to DM31.3bn (\$18.6bn) next year from the anticipated DM31.0bn in 1990. Thereafter it would decline to DM24.0bn in 1992 and DM11.6bn in 1994, assuming steady real economic growth of 2.5 per cent in West Germany over the period.

Mr Waigel gave a cheerful assessment of this week's reaction on foreign exchange and capital markets to German eco-

nomics and monetary union on Sunday. Next year's budget was "a positive signal for the people and the financial markets," he said.

The budget forecasts a 3.9 per cent increase in central government spending to DM52.4bn. The expansion has been trimmed from this year's 7.6 per cent rise. Thereafter, Mr Waigel wants to hold down yearly spending increases to 3 per cent, below annual anticipated nominal gross national product growth of 4.5 per cent.

The Government is trimming defence spending to DM52.6bn next year from DM53.7bn in 1990, a 2 per cent cut, although the Free Democrat members of the coalition are holding out for larger reductions.

Elsewhere the biggest changes concern spending on the environment - up 21 per cent. Continued on Page 18

Brussels seeks a greater role in German takeovers

By Lucy Kellaway in Brussels

SIR LEON BRITTON, the EC Competition Commissioner, has written to the East German Government expressing concern at the recent spate of takeovers by West German companies of their East German counterparts, and has asked for a greater role for the Commission in any future deals.

Sir Leon's intervention is sensitive since the Commission has no direct power to enforce competition rules in East Germany until full political unification takes place.

His letter betrays increasing alarm within the Commission that West German companies are being allowed to clean up in East Germany, in many cases strengthening what is an already dominant position in the western half of the country.

In a letter addressed to Mr Gerhard Pohl, the East German economics minister, he singled out the move announced last week by Allianz, West Germany's biggest insurance company, to take control of East Germany's state insurance business. He expressed his frustration that he had only found out about the deal by reading the newspapers, and put in a request for the Commission to be told in advance of any new deals.

The Commission said yesterday that it was also unhappy about Monday's purchase by Ruhrgas, West Germany's powerful gas distributor, of 35 per cent of the East German gas network.

In this case - unlike most of the others - there were other European gas companies known to have been interested

in the deal, and some suggestion that the West German company was given priority. This deal is particularly worrying to the Commission in the light of its attempts to introduce competition into the European gas market.

Sir Leon also questioned the competitive impact of the proposed takeover by three German electricity utilities of the East German electricity industry. This deal has also fallen foul of the West German Federal Cartel Office, which has given its consent to most of the other deals questioned by the Commission.

All three takeovers are being looked at by the Commission's competition experts, even though it is not yet clear whether it is legally allowed to investigate formally, nor what Continued on Page 18

Fiat may take 10% stake in GE jet engine development

By Paul Betts, Aerospace Correspondent, in London

FIAT of Italy is planning to become a risk sharing partner in the \$2bn development programme of the world's largest commercial jet engine by General Electric of the US.

The Italian car group is understood to be considering investing in a 10 per cent stake in the GE90 engine programme, replacing the West German Motoren and Turbinen-Union (MTU) aero-engine company which recently switched its allegiance from GE to its US rival Pratt & Whitney.

MTU's decision provoked an angry reaction from GE with a subsequent out of court settlement between the US and West German companies.

Fiat would join Snecma, the French state-owned aero engine company, as a risk sharing partner in the GE90 which is being developed to power Boeing's new 767-X twin engine wide body aircraft and other future widebody aircraft.

Fiat has indicated it is interested in developing its presence in the engine sector of the growing commercial aerospace

industry. A 10 per cent stake would represent an investment of some \$200m in the GE90 development programme.

GE said that it had signed a formal agreement with Snecma with the French company taking a 25 per cent share in the development and production of the new 120-inch fan engine. GE has had a long association with Snecma with the two companies co-operating on several civil engine programmes since 1968.

Mr Brian Rowe, the senior vice president of GE's aircraft engine subsidiary, confirmed that the US company was holding discussions with other international companies interested in joining the GE90 programme.

Apart from Fiat, the Japanese Ishikawajima Harima Heavy Industries engine group is also understood to be negotiating a stake of around 5 per cent in the development programme.

The GE90 is designed to provide 75,000 to 95,000 lbs of thrust to power the new Boeing 767-X widebody which, if

launched by Boeing later this year, is expected to enter commercial service in 1995.

Boeing is currently negotiating with a number of airlines to secure the initial orders to launch the \$5bn aircraft programme.

Among potential launch customers of the 767-X are American Airlines, United Airlines and Delta. British Airways is also believed to be interested to replace its older DC-10s and Lockheed Tristars.

The three leading engine manufacturers including GE and Pratt & Whitney in the US and Rolls-Royce in the UK have been engaged in a fierce battle to win the first orders on the new Boeing 767-X aircraft.

Rolls-Royce is competing with its big thrust Trent engine, while Pratt & Whitney is offering a more powerful version of its PW4000 engine.

The three major aero-engine companies have also sought to find international partners to spread the financial risks of developing new big thrust commercial engines.

Bonn sees borrowing restrained by growth

By David Marsh in Bonn

WEST GERMANY expects central government borrowing to fall to roughly one-third of 1990-91 levels by 1994 as a result of buoyant economic growth spurred by German unity. Mr Theo Waigel, Finance Minister, said yesterday.

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Elsewhere the biggest changes concern spending on the environment - up 21 per cent. Continued on Page 18

Gunfire in Albanian capital as hundreds seek refuge

By Judy Dempsey in London

HUNDREDS of Albanians yesterday stormed into western embassies in the capital, Tirana, seeking an escape to the west and presenting eastern Europe's last bastion of orthodox communism with its greatest challenge to date.

Some climbed walls and many others packed into trucks that crashed through fences of embassies, including those of West Germany and Italy amid a hail of police gunfire, according to several diplomatic sources.

Last night, in an apparent attempt to ease the tension, Albania said that people sheltering in the embassies would be given passports to leave the country and their safety guaranteed, according to the Hungarian state news agency.

The agency said the Albanian Foreign Ministry had asked officials of Italy, Greece and Hungary to tell refugees in their missions that Albania would honour a recent travel law giving adult citizens the right to passports and to re-enter the country.

The move, which was not confirmed by other diplomatic missions in Tirana, followed tense negotiations between western embassies and the Albanian government.

Mr Hanns Schumacher, a spokesman for the West German government said yesterday that 83 people had fled into Bonn's embassy in Tirana. One person was wounded as Albanian guards fired on those trying to enter the compound.

In the past 48 hours, said Mr Schumacher, a further 60 to 80 had taken refuge in the embassies of France, Italy, Greece, East Germany and China.

In Bonn the Albanian ambassador was summoned to hear a formal protest about this "brutal behaviour". Mr Schumacher said: "Nobody will be expelled from the embassy against their will."

The Greek ambassador in the capital said that at least four people had been wounded in the firing.

Reporters in Tirana last night said that troops patrolled the streets and all government appointments had been cancelled.

These incidents in a country in which any form of dissent is quickly quashed, apparently began last Sunday following demonstrations met with force by authorities. Background, Page 3

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NOTICE OF REDEMPTION TO THE HOLDERS OF
ECU 40,000,000
THE INDUSTRIAL BANK OF JAPAN FINANCE COMPANY N.V.
11 1/2% GUARANTEED BONDS DUE 1993

NOTICE IS HEREBY GIVEN that pursuant to paragraph 9(b) of the Terms and Conditions of the above Bonds and in conformity with the Fiscal Agency Agreement dated as of 9th August 1983, ECU 4,000,000 in principal amount of the above Bonds will be redeemed on 9th August, 1990, at par (the redemption price) together with accrued interest thereon to said redemption date. The drawing has taken place on 22nd June, 1990, in Luxembourg.

Serial numbers of the Bonds to be redeemed are set forth below on groups from one number to another number, both inclusive:

| | | | |
|-------------|-------------|-------------|-------------|
| 1352-1451 | 1862-1961 | 2571-2592 | 2793-2888 |
| 3089-3091 | 3192-3213 | 3314-3370 | 3704-3755 |
| 3856-3903 | 4972-5071 | 6518-6549 | 6750-6817 |
| 7702-7761 | 8062-8069 | 8170-8216 | 8317-8350 |
| 8451-8476 | 8577-8601 | 10259-10319 | 10720-10858 |
| 10900-11089 | 12358-12400 | 12601-12657 | 13515-13526 |
| 13627-13724 | 14225-14314 | 14671-14725 | 14928-15070 |
| 15589-15668 | 15905-16004 | 16193-16235 | 16438-16480 |
| 17361-17392 | 17487-17586 | 18024-18123 | 18457-18556 |
| 20151-20220 | 20321-20350 | 20680-20779 | 21056-21155 |
| 22774-22849 | 22950-23073 | 23083-23101 | 23402-23445 |
| 28546-28582 | 29084-29183 | 30450-30533 | 30634-30649 |
| 31878-31879 | 32380-32777 | 33904-34003 | 35895-35994 |
| 36553-36652 | 36890-36893 | 36794-36879 | 36904-36941 |
| 37742-37751 | 37852-38002 | 38503-38514 | 38615-38618 |
| 39014-39089 | 39490-39603 | | |

The following bonds, called for redemption on 9th August 1985, have not yet been presented for the payment:

| | | | | |
|-------------|-------------|-------------|-------------|-------|
| 1052-1061 | 2481-2489 | 5956 | 5978 | 7592 |
| 8351-8373 | 11402-11404 | 19169-19174 | 22051-22053 | 22057 |
| 22130-22137 | 25103-25104 | 27072-27074 | 27621-27623 | |

The following bonds, called for redemption on 9th August 1988, have not yet been presented for the payment:

| | | | | |
|-----------|-------------|------|-----------|-----------|
| 4030-4034 | 4078-4084 | 4705 | 6234-6251 | 8288-8309 |
| 9469-9477 | 16635-16637 | | | |

The following bonds, called for redemption on 9th August 1987, have not yet been presented for the payment:

| | | | | |
|-------------|-------------|-------------|-------------|-------------|
| 4895-4896 | 4948-4950 | 6332-6333 | 8258-8272 | 11656-11660 |
| 14570 | 18343 | 18615 | 19804-19806 | 21521-21523 |
| 22132-21541 | 22006 | 22711-22728 | 22742-22759 | 22853 |
| 22862-22865 | 22905-22907 | 26492-26504 | | |

The following bonds, called for redemption on 9th August 1988, have not yet been presented for the payment:

| | | | | |
|-------------|-------------|-------------|-------------|-------------|
| 1601-1602 | 2636-2637 | 3082-3109 | 3111-3133 | 3139-3143 |
| 3154-3157 | 3401-3429 | 3463-3468 | 3473-3489 | 3655-3703 |
| 4781-4785 | 4787 | 5423-5428 | 5443-5446 | 5449-5456 |
| 6551-6570 | 6611-6616 | 6663-6666 | 6868 | 6914-6915 |
| 6929 | 6951-6958 | 7764 | 7886-7891 | 7912-7925 |
| 7972-7983 | 7994-7995 | 8044-8048 | 11251 | 16461-16466 |
| 16814-16834 | 16886-16905 | 16786 | 18804-18811 | 18817-18823 |
| 18865-18869 | 18841-18859 | 19864-19871 | 21574-21586 | 21680-21687 |
| 21673-21691 | 22194-22208 | 22319-22320 | 22322-22324 | 22328-22331 |
| 22338 | 22394-22402 | 22419 | 22436-22460 | 22512-22520 |
| 22555-22560 | 23364 | 23367-23391 | 25515-25583 | 25723-25822 |
| 25901-26000 | 30204-30349 | 31716-31815 | 33063-33162 | 33404-33455 |
| 33556-33803 | 37563 | 37671-37679 | 38008-38019 | 38422-38423 |
| 38451-38502 | | | | |

The following bonds, called for redemption on 9th August 1989, have not yet been presented for the payment:

| | | | | |
|-------------|-------------|-------------|-------------|-------------|
| 23-26 | 84-115 | 280-291 | 302 | 304 |
| 309-312 | 317-326 | 328 | 342-362 | 430-431 |
| 441-449 | 454 | 1271-1272 | 1274 | 1317-1319 |
| 1322-1336 | 2791 | 3079 | 4131-4205 | 4272-4288 |
| 4793-4797 | 4810-4853 | 4955-4960 | 6099-6119 | 6418-6439 |
| 6451-6458 | 6500-6506 | 7137-7139 | 7144-7147 | 7208-7235 |
| 9705-9708 | 9720-9723 | 9735-9739 | 9767-9781 | 9789-9796 |
| 10638-10651 | 10660-10664 | 10669-10686 | 11159-11159 | 11330 |
| 11341-11345 | 11446-11450 | 11856-11862 | 11878-11882 | 11903-11932 |
| 12445-12544 | 12555-12564 | 12592-12600 | 14125-14126 | 14132-14144 |
| 14158-14170 | 14181 | 14219-14224 | 15884-15886 | 16336-16338 |
| 16347-16367 | 16376-16378 | 16383-16388 | 16399-16417 | 16430-16435 |
| 17290-17299 | 17310-17319 | 17341-17360 | 19349-19355 | 19357-19358 |
| 19912-19917 | 19930-19934 | 19947-19996 | 20002-20008 | 21167 |
| 21173-21174 | 21187-21240 | 23255-23279 | 23282-23285 | 23939-23942 |
| 23945 | 23976-23978 | 24017-24023 | 24077-24081 | 24099-24103 |
| 24111-24123 | 24130-24139 | 24144-24148 | 27148-27171 | 27374-27376 |
| 27380-27381 | 27387-27396 | 27471-27478 | 27471-27473 | 28688-28689 |
| 37370-37379 | 37759 | 37764-37768 | 37795-37801 | |

Amount outstanding after 9th August, 1990: ECU 13,000,000.-

Interest on the Bonds to be redeemed will cease to accrue on the redemption date. On such date the redemption price will become due and payable on each of said Bonds and payment thereof together with accrued interest will be made at any one of the following paying agents: the office of Societe Generale Alsacienne de Banque, Brussels branch, the office of Societe Generale, London branch, the office of Credit Suisse Zurich and the office of Societe Generale Paris upon presentation and surrender of said Bonds with all coupons attached maturing after said redemption date. In the event that any such coupon is not so attached, the amount of said coupon will be deducted from the redemption price.

Coupons which shall mature on, or shall have matured prior to, said redemption date should be detached and surrendered for payment in usual manner.

THE INDUSTRIAL BANK OF JAPAN
FINANCE COMPANY N.V.

BY SOCIETE GENERALE ALSACIENNE DE BANQUE
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THE PRINCIPAL PAYING AGENT



CS

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CREDIT SUISSE FINANCE (PANAMA) S.A.

Notice to the holders of
warrants of 4 1/2% US\$ bonds 1987-97
of Credit Suisse Finance (Panama) S.A.
exercisable into shares of CS Holding

In connection with the increase of the capital and the issue of COTO (cash-or-securities option) of CS Holding, the relevant warrant exercise price has been reduced from Sfr. 3,553.70 by the amount of Sfr. 121.- (1.1 Series IA COTO) to Sfr. 3,432.70 in accordance with the antidilution clause.

Instructions to exercise warrants at the reduced warrant exercise price will be executed on 4 July 1990 at the earliest.

Zurich, 4 July 1990

CREDIT SUISSE
CREDIT SUISSE FINANCE (PANAMA) S.A.

Swiss Securities Identifier:
4 1/2% US\$ bonds with warrants 1987-97 804.880
Warrants 806.193

French observer
to attend nuclear
treaty conference

By Ian Davidson in Paris

THE French Government is to send an observer to the nuclear Non-Proliferation Treaty review conference, which starts next month in Geneva.

France is not a signatory of the NPT, and some observers see the move as a clear signal of the French socialist Government's general support for arms control and its desire for closer rapprochement with its strategic partners in the European Community and the

At the Prime Minister's office, however, officials claim that the move is partly the result of the personal intervention of Mr Michel Rocard, who has believed at least since 1985 that France ought to join the Treaty, which tightly restricts the spread of military nuclear technology.

President de Gaulle originally refused to join the NPT, when it was open for signature in 1968, as part of his campaign against the dominance of the nuclear super-powers and in favour of the national aspirations of Third World countries.

Since then, however, France has increasingly adhered to the spirit and the practice of the Non-Proliferation Treaty, including the 1977 London agreement on the control of nuclear technology exports.

As a matter of principle, France is now unequivocally in favour of a strong international anti-proliferation regime. At last week's EC Dublin Summit the 12 heads of state issued a strong statement in support of non-proliferation.

Yesterday's French communiqué reiterated the point: "France will continue to work for the establishment of the widest possible consensus, in favour of an equitable and stable regime of non-proliferation, based on an essential balance between non-proliferation of nuclear weapons and the development of civil nuclear applications."



Michel Rocard: support

Atlantic Alliance.

But the French Foreign Ministry played down the significance of yesterday's decision, pointing out that most of the non-signatory states, including China, will also be sending observers to the review conference.

Brussels plan to set up £7bn safety net for E Europe

By David Buchan in Brussels

The west should give east European countries an ECU800 (£7bn) safety net to encourage them on to the high wire of radical reform, according to a controversial European Commission plan.

The plan will form the centrepiece of the Commission's proposals to ministers of the Group of 24 countries meeting here today to review and extend their aid effort to eastern Europe.

The "G-24 reserve facility", which has been aired publicly in recent weeks by Mr Frans Andriessen, the EC external affairs commissioner and chief co-ordinator of G-24 programmes, has already drawn some criticism from the UK and, outside the Community, from the US.

For all his pro-EC sentiments, Mr James Baker, the US Secretary of State, is likely to be cool towards the plan today. US and UK officials see no reason not to use International Monetary Fund money,

as well as IMF conditions, in eastern Europe.

However, the plan now has backing from the Commission as a whole and has taken on a new relevance in the controversial debate over aid for the Soviet Union. EC officials say that underpinning eastern Europe financially will help that region to start paying for Soviet energy and raw materials in hard currency from next January, as agreed within Comecon. Today's meeting will formally extend G-24 aid to eastern Europe beyond Poland and Hungary.

The EC executive has arrived at the ECU800 by totting up the aid demands it has received as G-24 co-ordinator - including an ECU300 standby facility request from Czechoslovakia, a request from Yugoslavia for \$1bn, and substantial aid for Bulgaria - and by adding in existing commitments to Warsaw and Budapest.

Brussels' idea is that, instead

Hungarian press sell-off row

By Nicholas Denton in Budapest

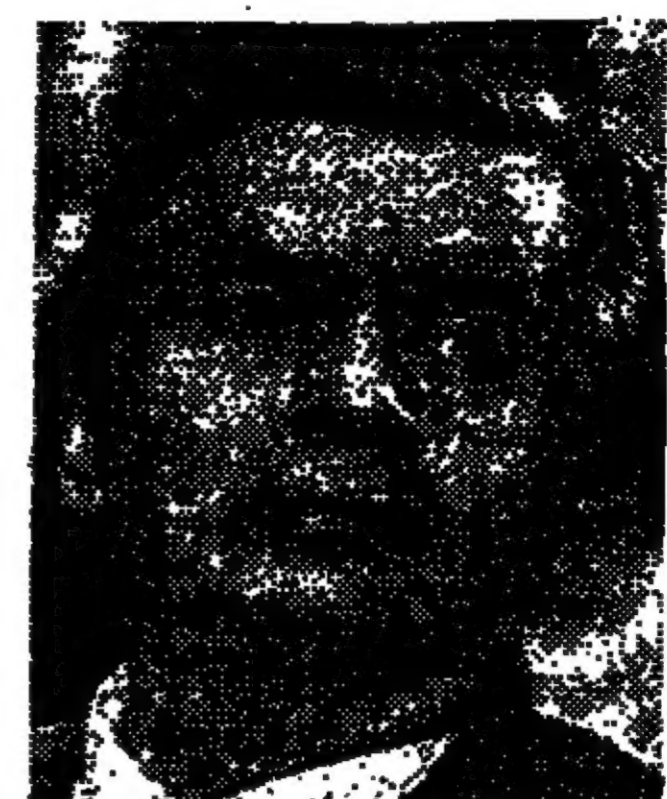
A HUNGARIAN parliamentary committee yesterday threw the privatisation of the country's press into confusion when it launched a report which is deeply suspicious of the already-extensive foreign investment in the sector.

The report notes that foreign investors, primarily Mr Robert Maxwell, Mr Rupert Murdoch and Mr Axel Springer, took over Hungarian papers in a legal and administrative vacuum, in which properties were under-valued or simply expropriated.

One of the "large dangers" in this is that foreign partners, the only ones with sufficient resources, tend inexorably to increase their stake beyond what was initially accepted, the report says.

"All foreign capital strives for exclusive control," it says, adding: "In the long run, it strives towards monopoly."

The parliamentary committee, dominated by the ruling conservative coalition, calls on the government to take control of media privatisation. Up to now, the process has generally been initiated by managers and



Antall: has his preferences

editors, whose motivations the committee distrusts. To stop similar occurrences in future, the government should sack some of them, the document says.

Its rhetoric prompted Mr Miklos Haraszti, opposition representative on the committee, to talk of "a general attack on foreign press capital". But the government's response is likely to concentrate on deterring unsuitable investors in

particular rather than foreign companies as a whole. The investigation into media sell-offs arose out of the controversial takeover in April by Mr Springer of the regional newspapers of the Hungarian Socialist Party, the former ruling party. But the inquiry has expanded to cover all the media and its recommendations are unexpectedly far-reaching.

Its conclusions have given substance to opposition fears that the Hungarian Democratic Forum, the leading party of the conservative government, is trying to control and tame the press. Mr Haraszti said the majority report was "tightening and intended to be tightening". Last month, the government halted the planned sale of Magyar Nemzet, a leading daily newspaper, to the Swedish Dagens Nyheter, which party leaders had accused of being hostile to the Forum.

An official close to the Prime Minister, Mr Jozsef Antall, admitted that the government preferred Haraszti, publishers of France's Le Figaro.

Miners win the first industrial showdown

By Nicholas Denton

MINISTERS yesterday caved in to the demands of a group of striking coal miners, in the first test of the new Hungarian government's resolve to face down industrial lobbies.

Workers at the Markusovszky colliery in northern Hungary, which employs 5,000, began their strike on Monday insisting on a purge of communist-appointed managers, improvements in pay and retirement

terms and the sending home of Polish guest workers.

The government has swiftly agreed to allow pensionable retirement after 25 years and to go some way towards meeting the miners' 50 per cent pay claim. It has made concessions on most of the remainder of the workers' 16 demands.

The alacrity with which the government began negotiations, on a ministerial level,

points to nervousness that it will face a wave of strikes. The authorities are determined to handle industrial relations more sensitively than their communist predecessors.

But in giving even the appearance of concessions, the new government is bound to encourage high pay claims at a time when it is struggling with an inflation rate heading over 30 per cent.

Czechoslovakia to introduce sweeping economic reforms

By John Lloyd

THE new Czechoslovak government will introduce sweeping market reforms in its two-year term of office, Mr Marian Calfa, the Prime Minister, said yesterday.

He added, however, that these reforms would be accompanied by a strong safety net. "The Government does not promise castles in the air, nor does it promise blood, sweat and tears only," he said.

He said prices of some 30,000 items, including some basic foods, will rise next week by an average of 25 per cent. All citizens will receive a 140 crown (about \$16) raise to compensate for the rises.

Mr Calfa said that the country had no time to lose if it wanted to become a modern democracy with a flourishing market-based economy.

However, the leading advocate of rapid reform - Mr Vaclav Klaus, the Finance Min-

ister - is under pressure from the president and from Civic Forum, the movement of which he is a member and which won the polls last month.

President Vaclav Havel recently warned economic reformers they must not cause too large economic dislocation or hardship, and that he would not accept the excuse that this was impossible. Mr Klaus has frequently said it is impossible.

A meeting of Civic Forum ministers on Monday that Mr Klaus, a former minister in the Communist government, could be weakened because of his previous affiliation.

Study rules out social dumping

By Lucy Kellaway in Brussels

RICHIER European Community countries need not fear that industries will shift production to parts of the Community where wages are lower after 1992, according to a detailed study to be published today by the European Commission.

The report shows that there is almost no difference between unit wage costs in the 12 countries, as lower wages are matched by lower productivity. It says there will be no incentive for producers to

move from high to low wage areas - a process known as "social dumping".

It also predicts that employment in the Community will continue to grow, although at a slightly lower rate than over the last four years, when 7m new jobs were created. It forecasts an extra 1.5m jobs this year and 1m in 1991.

However, it paints a grim picture of prospects for the long-term unemployed, and shows that women are still

being discriminated against in most member states.

Women in manual jobs earn 25 per cent less an hour than men on average in member states, the report says, and notes that the gap is particularly wide in the UK, where women earn less than 70 per cent of the male rate.

The long-term unemployed amount to 5 per cent of the EC workforce and are growing steadily.



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EUROPEAN NEWS

Baltic leaders to co-ordinate talks with the Kremlin

MRS Kazimiera Prunskiene, Prime Minister of Lithuania, says leaders of the three Baltic republics will meet next week to devise a strategy for independence talks with the Kremlin, AP reports from Moscow.

Mrs. Prunskiene, who returned from a visit to Finland and Estonia last night, said she wanted all three Baltic states to be involved in negotiations with the Kremlin but that the Moscow leadership was opposed to the idea.

The official Tass news agency quoted her as saying it was a conference in the Lithuanian capital of Vilnius that Lithuania, Estonia and Latvia would work together on Lithuania's approach to negotiations with the Kremlin.

The 16-week confrontation appears to have settled few issues and left the Baltic republics still with a strong will to climb to gain independence.

Both sides have been able to prove some important points, notably that neither was able to impose its will on the other.

Meanwhile, Soviet Premier Nikolai Ryzhkov said the initial phase of the independence talks would be the most difficult as Lithuania offers its ideas about its future course.

"If the republic remains a part of the USSR with some special status, this will call for one scenario," he said. "If they categorically insist on seceding from the USSR, negotiations will be a completely different scenario."

Ryzhkov also told the unofficial

Interfax news agency that talks on Lithuania should be conducted at the level of prime minister.

But he said "unfortunately, we have received no answer yet from the Lithuanian leaders as to who will negotiate with Soviet officials, on the level of prime minister or otherwise."

The Soviet Government, responding to Lithuania's agreement to a moratorium on its declaration of independence, resumed pumping oil to Lithuania's largest refinery at Mazhlekia on Saturday.

Gasoline is going mainly to agricultural concerns, said Boris Subacius, a spokesman for the Supreme Council legislature.

"The blockade is being lifted, but we cannot feel it yet," Subacius said. He said it would probably be two or three weeks before the situation was normal.

The Soviet Government cut off shipment of all oil, most natural gas and numerous other items to Lithuania on April 18 in an attempt to force it to rescind its March 11 declaration of independence.

On Friday, the Lithuanian parliament accepted a compromise that traded a 100-day moratorium on the independence decree for an immediate end to the blockade and the start of negotiations.

Subacius said the negotiations between Vilnius and Moscow could begin within two weeks.

Ex-KGB agent says most secrets are already in the west

THE KGB has little left to hide, a former spy said on Tuesday, since most of its secrets had been taken abroad by a score of defectors since 1980, Reuter reports from Moscow.

Oleg Kalugin, branded a traitor and stripped of his medals by President Mikhail Gorbachev, said the KGB security agency had no moles - undercover operatives - in its US equivalent, the Central Intelligence Agency (CIA), in the seven years he ran counter-espionage operations abroad.

His latest broadside against his former employers was published in the daily Komsomolskaya Pravda, which last month printed revelations that brought down the wrath of Soviet officials.

"From 1980 to 1989 three KGB officers defected to the West," Kalugin wrote. "And since 1980, about 20 people betrayed the country - the latest defector went to Belgium this spring."

"So we can speak not about a leak of information but about the transfer and sale to the west of the majority of secrets of Soviet intelligence, about the complete collapse of a huge number of spy networks. But all this is hidden from the public."

Komsomolskaya Pravda also published a request for a parliamentary investigation of Kalugin's expose of the KGB.

Berlin agrees to all-German elections on December 2

By David Goodhart in Bonn

THE East German coalition has agreed that all-German elections should take place on December 2, the date originally planned for West German elections, and that elections for the five re-emerging East German Länder (states) should take place on October 14.

The choice of December 2 was welcomed by Bonn and now seems virtually certain to be the date. The preference in Bonn and East Berlin is for full political unity of the two Germanys to come just before the election.

The Soviet Union continues to feel uneasy about being placed under such time pressure but Chancellor Helmut Kohl will be visiting Moscow on July 15 and 16 to add more sugar to the pill of East German entry into Nato. Significantly, he is being accompanied by Mr Theo Waigel, Finance Minister, as well as Mr Hans-Dietrich Genscher, Foreign Minister, and West German financial assistance for the Soviet Union is sure to be high on the agenda.

Preparatory talks have

meanwhile begun on a second State Treaty between the two Germanys to follow up the first treaty, which dealt primarily with the legal background to economic and currency union. In the second treaty broader political issues such as changes to the West German constitution, property ownership and the future size of the East German armed forces will be addressed.

The question of Berlin as future capital of a united Germany may also be addressed, although possibly in an appendix to the treaty. Although

poll evidence suggests enthusiasm for Berlin is waning, a growing number of political leaders - including President Richard von Weizsäcker, former Chancellor Willy Brandt, and SPD leader Hans-Jochen Vogel - have spoken out for Berlin.

Yesterday it was announced that Daimler-Benz would be allowed to buy a large site in Potsdamer Platz, in the heart of Berlin, an issue that had threatened the Red-Green political coalition in West Berlin.

● The Christian Social Union,

the Bavarian sister party to Bonn's ruling Christian Democrats, said yesterday it would stand by its new partner in East Germany, the German Social Union (DSU), which has been accused of lurching to the far right. The DSU's two most prominent members, Mr Peter Diestel, East German Interior Minister, and Mr Hans-Wilhelm Ebeling, DSU founder and Development Aid Minister, have both left the party complaining about a rightward shift and contacts with the West German Republicans.

Albania's communists on the slippery slope

Alia will remember E Germany as he tries to resolve refugee crisis, writes Judy Dempsey

THE RULING Albanian Workers' Party is facing one of the most serious challenges to its authority with the attempt by more than 100 Albanians to emigrate by forcing their way into western embassies in Tirana.

But the party is also facing a dilemma which may only be resolved on the streets. Mr Ramiz Alia, the leader of the AWP, watched how ruling communist parties across eastern Europe tumbled last autumn after thousands of East Germans were allowed to leave when they sought refuge in the West German embassies in Budapest and Prague. He must now avoid the same fate as he embarks on a cautious road towards reform.

If the reforms promised last May by Mr Alia and his Prime Minister, Mr Adil Carcani, are implemented, then the leadership raises the population's

political and economic expectations.

As the Bulgarian and East German experiences confirm, once the lid of totalitarianism is prised open, it is difficult to tighten it.

But if the Albanian leadership fails to introduce substantial changes, then the population is likely to grow more restless as it considers its bleak future under a one-party state, the last in post-war Europe.

The violence and speed which overthrew the regime of the dictator Nicolae Ceausescu in Romania last December shows the fragility of these regimes when confronted with frustrated and angry crowds.

These then are the stark choices faced by Mr Alia, who is considered a popular figure - not a difficult feat given the appalling terror endured by the population under the late Mr

Enver Hoxha who died in 1985. Throughout his long rule, Mr Hoxha, who founded the AWP after the Second World War, ruthlessly put down any opposition. He did so not simply by expelling them from the party, but by arranging "accidents" and the like, a fate which befell Mr Mehmet Shehu who unwisely challenged Mr Hoxha in 1982 and who then committed "suicide".

Mr Alia, so far, has not faced any real challenge from within the party largely because he has been reluctant to start any policy of de-Hoxhaisation. Indeed, Mr Hoxha's memoirs continue to roll off the printing presses, a signal that Mr Alia is keen to keep under control the tribal factions within the communist party. One of those factions is led by Mr Hoxha's wife, the formidable Mrs Nexhmije Hoxha, a powerful but conservative figure who

still wields enormous influence among the party rank and file. In addition, Mr Alia has surrounded himself with reform-minded colleagues, including Mr Reis Malile, the Foreign Minister and Mr Farudin Hoxha (no relation), a young engineering professor who is spearheading closer economic links with the outside world.

But Mr Alia is anxious to match these changes with modest reforms introduced in May. These include more flexibility in the economy and the right to travel. So far, 6,000 passports have been granted. But the shortage of hard currency, the bureaucracy and the powerful interior ministry is likely to prevent large numbers of young Albanians from travelling abroad.

This will cause problems for Mr Alia because young Alba-

nians, who are sensing the winds of change blowing from eastern Europe to the western edge of the Balkans, are growing more restless.

So far, no articulate opposition has emerged to lead them or to accelerate the pace of change. This suits Mr Alia. But the desperate need for change by the youth and the intellectuals, combined with the conservatism of the party, may mean that Mr Alia cannot continue to control change for much longer.

This bodes ill for the future. For given the country's traditions and history, the opponents of change are unlikely quietly to cede power to the proponents of change. "The Albanian people have hacked their own history with swords..." states the Albanian constitution, a reminder that change in a totalitarian system is rarely bloodless.

Gorbachev upstaged at congress by fiery words and farce

By Leyla Boulton in Moscow

THE Soviet leadership yesterday treated the Communist Party congress to an unprecedented double-bill performance featuring the near-collapse of Marshal Dmitri Yazov, the ageing Defence Minister, plus a vivid show of disarray at the top.

The 68-year-old marshal, after stumbling through much of a tedious report on his tenure as defence minister, had to be helped back to his front-row seat, when it became clear he would not make it back on his own.

Although in totally changed circumstances - this is the first time that politburo members have been ordered by party comrades to defend their record in public - the spectacle of an ailing Kremlin grandfather was almost throwback to the Brezhnev era.

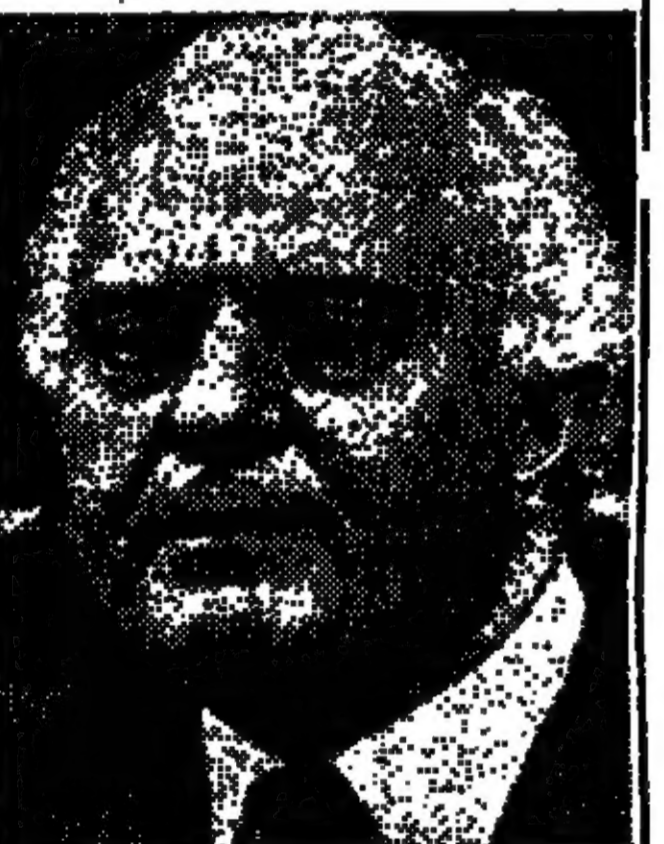
"Now you understand what a gerontocracy means," said a smiling air force colonel in his mid-30s. "This is one of our biggest tragedies," he said in a brief aside as delegates to the 28th party congress streamed towards the luxurious white-marbled cafeteria for lunch.

Earlier, Mr Lev Zaikov, 67, a former headline Moscow Communist Party chief, now in charge of heavy industry and defence, drew cruel bursts of laughter from the hall as he jumbled his words to produce an unwitting pun about anachronistic phenomena.

One of the tasks of the 10-day congress is likely to be the election of a brand new politburo. Mr Mikhail Gorbachev, the Soviet leader, questioned on the issue, revealed yesterday that at least four of the older politburo members intended to step down.

Tass quoted him as telling delegates that Mr Nikolai Slyunokov, 61, and Mr Gumer Usmanov, 63, had cited health grounds, while Mrs Alexandra Biryukova, 61, and Mr Vitaly Vorotnikov, 64, had reached pensionable age.

Separately, two of Mr Gorbachev's closest aides, Mr Alexander Yakovlev, the ideological architect of perestroika, and Mr Eduard Shevardnadze, the vigorous 62-year-old Foreign Minister, have signalled their intention to leave the ruling body of the Communist Party



Shevardnadze listed successes while retaining government posts. Mr Shevardnadze, delivering a passionate defence of perestroika's achievements in foreign policy, said yesterday he saw "no reason" for combining his job as head of Soviet diplomacy with membership of the politburo.

"I am firmly convinced that our country needs strong armed forces. But this is not everything. One can arm oneself to the teeth and still fear an attack... Policy can provide such conditions when a country will not have enemies," he said, wagging his finger at the 5,000-strong congress.

At the opposite end of the political spectrum, Mr Yegor Ligachev, the party's senior conservative, won loud applause as he renewed attacks on Mr Gorbachev's policies.

The 68-year-old hardliner, clearly in command of all his faculties, said that "thoughtless radicalism, improvisation and swinging from side to side" had yielded little during five years of perestroika.

In a clear rebuff to Mr Yakovlev, who on Monday drew applause even from conservatives in an eloquent plea for radical reform of the party, Mr Ligachev said that he was convinced the party would remain "Marxist-Leninist".

It was not immediately clear how much of yesterday's proceedings would be shared with the Soviet public.

There was no live television coverage, and Tass made no mention of the marshal's difficulties.

Report paints bleak outlook for the Soviet economy

By Stephen Fidler, Euromarkets Correspondent

A CONFIDENTIAL report from the Institute of International Finance, the Washington-based research group owned by international banks, describes the near-term outlook for the Soviet economy as bleak.

The problems of long-standing opposition to perestroika are being compounded by rising ethnic tensions and a devolution of political authority stemming from the decline of the Communist Party.

The report projects an expansion in the convertible currency current account deficit from \$3.4bn (£1.97bn) last year to \$4.4bn this year. Up to 1988, the Soviet Union enjoyed a significant current account

surplus. The hard currency trade deficit is expected to reach \$2bn this year.

By 1991, however, the Soviet Union's external position could improve noticeably as trade previously conducted in non-convertible currency within east Europe is shifted to convertible currency. Assuming trade with Hungary and East Germany will be on a hard currency basis, trade should swing back into a \$600m surplus.

Despite the widening of the current deficit, net external borrowing should drop this year to \$4.2bn from \$6.5bn last year, a forecast made on the assumption that export financing will be reduced.

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AMERICAN NEWS

US cable industry faces crackdown by legislators

By Peter Riddell, US Editor, in Washington

TIGHTER regulation of the US cable industry looks increasingly certain under legislation now passing through both houses of Congress.

The measure, in parallel versions approved by the Senate Commerce Committee and the House Energy and Commerce Subcommittee on Telecommunications, is a response to widespread complaints that the deregulation of the mid-1980s has led to poor service and excessive rate increases by some monopolistic operators.

The final form of the legislation is still uncertain in the face of intensive lobbying by cable operators of various kinds - broadcasters, programme producers, telephone companies and supporters of direct broadcast satellite services. At issue is the structure of the industry and the balance between regulation and competition.

There is growing contro-

versy over a provision in the House version to let new foreign ownership of US cable television systems, with effect from last June 1, and to limit the expansion of existing foreign-owned systems to 10 households.

A common feature of both Senate and House versions is tighter regulation of basic rates charged by cable operators. Under the House version, consumers would have to show that their rates were "unreasonable" compared with those of a similar sized operator to win a cut in rates.

The Federal Communications Commission (FCC) would be able to set maximum fees for a basic tier of programmes, such as local broadcasts and public-access channels, and would be able to reduce rates for other programmes where charges were deemed "unreasonable or abusive".

According to the Senate ver-

Ottawa urged to block Arctic oil drilling

By Bernard Simon in Toronto

THE Canadian Environmental Impact Review Board has urged Ottawa to reject Gulf Canada Resources' exploration programme in the Arctic, questioning the ability of oil companies and the Government to deal with a big spillage in the area.

Gulf Canada, the biggest operator in the area, has completed one well and plans to drill another this summer at a cost of \$70m (\$34.3m). A third well is due for completion in 1993.

The Government has 90 days to decide whether to accept the recommendation.

Clean-up from a large well blowout in the Beaufort Sea would, under existing conditions, be subject to the same degree of delay, confusion and inefficiency that appears to have characterised the Exxon Valdez oil spill, the report said.

Several Canadian oil companies have made the Beaufort Sea a focal point for exploration over the past 15 years, in the hope of repeating the nearby Alaska North Slope discoveries. But high costs, the stagnant oil price and the withdrawal of government funds have recently curbed drilling activity.

The review board, which includes federal government officials and representatives of the Inuit (Eskimo) community, said it was perturbed that the Government had capped the legal liability of oil and gas companies operating in the Beaufort Sea at \$40m.

It also voiced concern that annual spill contingency planning between the authorities and the industry had been discontinued, and that no investigation was made into a company's financial ability to cope with a large spill.

Gulf, which is controlled by Olympia & York, the Toronto real estate and industrial group, has estimated that in a worst-case scenario a well blowout in the Beaufort Sea could cause the spillage of 40,000 barrels of oil a day for just over two months. This would total 2.6m barrels, or more than ten times the amount split by the Exxon Valdez in Alaska last year.

Where ballot did not halt bullet

Human rights abuses continue in bloody Guatemala, writes Tim Coone

IF YOU want to enjoy your breakfast in Guatemala, it is best not to read the morning papers.

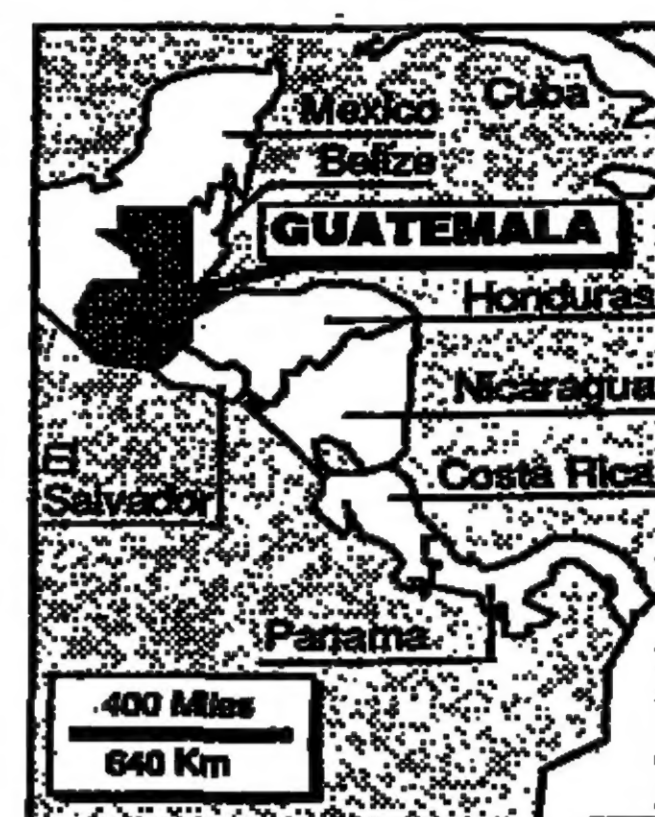
Reports and photographs of murdered, and often tortured, bodies are a daily headline fare. These shed some light on the sporadic gunshots one frequently hears echoing through the night in Guatemala City centre. But few reports ever tell of the successful apprehension of the murderers.

The dead simply join a long list of 100,000 killings and 40,000 cases of "disappeared" persons that international human rights organisations have compiled over the past 30 years in Guatemala.

There may be a duly-elected government in Guatemala, but according to Mr Marco Antonio Sagastume, a representative of the human rights ombudsman's office in the capital, "the disappearances and the systematic abuse of human rights continue". He claimed the security forces were the principal culprits.

According to an official of the human rights office of the Archbishop of Guatemala, who spoke anonymously for safety reasons: "Some 5,000 habeas corpus appeals have been made to the Supreme Court since President Vinicio Cerezo came to office in 1985. None has been successful".

Western diplomats defend the Christian Democrat administration of President Cerezo, saying that repression is not a policy of his government, but rather of the security forces, which he has no control. The military themselves are under less pressure from the



US to improve their human rights record because US military aid is limited. Mr Cerezo himself has survived at least two coup attempts.

An explosion of drug-related crime and corruption is also taking its toll. Last August, Mr Danilo Barillas, a former secretary-general of the party and a probable candidate for the presidential election next November, was gunned down soon after announcing his intention to name government and Christian Democrat party officials who he claimed were involved in drug-trafficking.

One experienced western diplomat in Guatemala said: "Drugs are probably the single biggest threat to Guatemala's future. The country's institutions are not strong enough to withstand the pressure of the drug barons." He said Guatemala provided ideal conditions for the drug smugglers.

"There are over 1,000 airstrips on the Pacific coastal plain and there is no radar coverage. For money laundering there is an extensive banking system with tight secrecy laws," he said.

Anti-narcotics police in the region have been alarmed by the growing use of Central American for the transit of cocaine to the US from Colombia in the past two years.

While drugs are the growing threat, the left-wing guerrillas of the URNG are a declining one. They never numbered more than 12,000 at the height of their activity in the early 1980s. Today, western diplomats put the figure closer to 2,000. As it happened, the brutal counter-insurgency cam-

disarmament before discussing constitutional and judicial reforms. For their safety, the guerrillas insist on the reforms as a first step. The army is convinced it has won the war and thus has no need to make concessions.

Against this background, and the seeming inability of the government to respond to growing economic problems in the country, a former general is emerging as one of the front-runners for the presidential race.

On a law-and-order and anti-corruption platform, ex-general Ephraim Rios Montt, who headed a de facto government in the early 1980s after a military coup, is hoping this time to be voted into office.

A right-wing nationalist with an honest but harsh reputation and little love for the "gringos" who severed military and economic aid to his regime, he has a strong following in the cities. I am like animal-fat soap," he is fond of saying. "I am not perfumed but I clean." Guatemala experienced one of its worst periods of political repression under his 16 months of rule. None the less, some opinion polls and many analysts consider him to be the best chance president if he is allowed to run.

An obstacle to his candidacy exists under the 1985 constitution, forbidding former de facto leaders from standing for public office. Mr Rios Montt's lawyers argue that the constitution cannot be applied retroactively. The Electoral Tribunal will have the final word. A ruling is expected by August.

Nicaragua renegotiates oil debt

By Tim Coone in Managua

VENEZUELA is to resume crude oil exports to Nicaragua in August this year, following the renegotiation of a \$150m (\$67.2m) debt this week.

Venezuela suspended all crude and refined oil products sales to Nicaragua in 1982 when the latter was unable to maintain payments, even on the concessionary terms under which Mexico and Venezuela were supplying the Central American countries under the San José agreement. This arrangement supplied 20 per cent of the countries' oil purchases on long-term credit.

Under the new terms, Nicaragua is to repay Venezuela over 40 years at an annual interest rate of 9 per cent, with a seven-year grace period for capital repayments.

Mexico suspended oil sales to Nicaragua in 1985 because of lack of payment, opening the way for the Soviet Union to become Nicaragua's main supplier. However, the last shipment of Soviet oil supplied on concessionary terms to Nicaragua is to arrive this month.

US manufacturing maintains flat trend

By Peter Riddell

NEW orders for US manufactured goods rose 2.1 per cent in May, reversing a similar decline the previous month and maintaining what the Commerce Department sees as a relatively flat trend.

Following Monday's increase in the purchasing managers' index of manufacturing activity, yesterday's figures reinforce the picture of, at best, sluggish growth in the US economy. Manufacturing output appears to be rising slowly, notably for export as domestic consumption has slipped back in recent months.

The Federal Reserve's policy-making Open Market Committee (FOMC) yesterday finished a regular two-day review of its monetary approach. The market generally expects no change in the immediate future although short-term interest rates could fall later in the summer, especially if there is agreement between the Bush Administration and Congress on a "credible multi-year package" to reduce the federal budget deficit.

Some economists are concerned that the slowdown will turn into a recession, but recent comments by Mr Alan Greenspan, the Fed chairman, and by most other Fed governors and regional bank presidents on the FOMC have been less pessimistic.

Regional bank presidents remain worried about inflationary pressures and believe it would be wrong to ease policy prematurely. The Administration, while believing a recession can be avoided, argues that the Fed is too concerned with inflation, which the Treasury maintains has stabilised.

Yesterday's figures, in seasonally adjusted current dollars, show that shipments of manufactured goods increased 2 per cent in May, more than offsetting the previous 1.3 per cent decline.

Manufacturing inventories were flat, continuing the recent trend and suggesting there is no large overhang of stocks which might force producers to cut their production levels.

Four held over death of Mexican activist

By Richard Johns in Mexico City

FOUR MEN have been arrested in connection with the murder of Dr Norma Corona, late president of the Commission for the Defence of Human Rights, in the northern Mexican state of Sinaloa.

One is an active officer of the state's judicial police, two others are former members of it and the fourth has connections with drug traffickers.

They are alleged "material authors" of the crime. As always in Mexico the principal question is who was the "intellectual author" - or who commissioned the assassination.

The killing of Dr Corona in the city of Culiacan on May 21 is believed by western diplomats to have prompted President Carlos Salinas de Gortari to establish a

national commission on human rights, prior to his visit to Washington last month. His administration is showing mounting concern over Mexico's growing reputation for human rights abuses - concern heightened by political considerations as it approaches negotiations on a free-trade agreement with the US.

It was also embarrassed by a report of the US-based Human Rights Watch in June which highlighted the autonomy given to the federal judicial police in the fight against drug trafficking.

Officers of the police's anti-narcotics division routinely committed criminal acts far worse than those they were trying to stop, the report said.

It pointed out that Dr Corona had

openly denounced the judicial police. It also said that journalists and human rights activists who report on abuses do so at considerable risk.

Mr Jorge Castaneda, a distinguished writer and journalist whose articles in the US press have deeply angered the Mexican administration, has recently been threatened with execution by elements now identified as being linked with the judicial police.

It in turn has tried to portray him as a spokesman of the centre-left opposition Party of the Democratic Revolution (the PRD), which claims that Mr Castaneda Cardenas, its leader, was denied victory in the 1988 presidential election as a result of fraud.

WORLD TRADE NEWS

World trade structure 'runs failure risk'

THE FUTURE of the world trading system could be seriously at risk if trading nations fail to reach a framework agreement on the Uruguay Round of multilateral liberalisation talks in Geneva later this month, Peter Montagnon writes.

The warning comes in a report on the Round by the Eminent Persons Group on world trade, an international lobby group formed earlier this year and chaired by Mr Otto Lambelet, the former German Economy Minister.

Without such a framework agreement covering the entire 15-subject agenda of the talks, trade ministers would have too much to do at their final Uruguay Round meeting in Brussels this December and would be reduced "either to

EC linen exporters in character clash with Japanese



A SINGLE ideogram is at the centre of an EC trade dispute with Japan over the fabric ramie, sometimes called "Chinese grass", but not distinguished from linen on the label. Japanese garments, Robert Thomson reports from Tokyo.

European linen exporters say the confusion hurts their sales, while Japanese textile industry officials argue that there is no problem, since ramie and linen have a similar look and feel and, more important, Japanese consumers cannot tell the difference.

Japan's Ministry of Interna-

tional Trade and Industry (MITI) has asked EC officials to gather more information on the two fabrics, which are often blended by Japanese companies, although good-quality ramie is about half the price of linen.

Mr Robert Franck, director of the Japanese Linen Spinning Association, said: "Not separating linen and ramie is like saying that pork and beef are the same because they are meats."

But Mr Shigeaki Kobayashi, managing director of the Japanese Linen Spinning Association, argues that the Japanese word "asa" has always covered both materials, and

there is no need now to differentiate.

"Ramie has been a part of Japanese culture for thousands of years. You cannot say its quality is inferior to linen. High-quality kimonos are made from ramie. At the funeral of the late Emperor, the participants wore ramie," Mr Kobayashi said.

Washington discovered ramie four years ago, when the fabric was not on a textile quota list, and exports of ramie pullovers from China tripled in a year.

Chinese farmers had increased production sharply, as modern technology was able to refine a coarse fibre that

had been used for sacks and gunny bags.

The Chinese have traditionally used two characters to separate the vegetable-based materials ramie and linen, but Japan now uses only one Chinese ideogram, which can mean both.

A MITI official admitted yesterday that the differences were significant, with linen softer and more suitable for lingerie, while ramie is good for jackets and jumpers.

Mr Franck said he could tell the difference from a distance, but until Japan agreed to make the point more obvious on the label, EC exporters would have difficulty building a high-quality image for linen in a quality-conscious market.

"Ramie is not the same. It doesn't drape as well. Its appearance is more metallic. It is not as soft. It simply is not as good," he said.

Japan imports more than 15 per cent of western Europe's linen production, and is the second-largest market after the US.

In the first 11 months of last year, Japan imported 15,754 tonnes of flax fibre, which is used to make linen, 815 tonnes of linen yarn, and 536 tonnes of fabric.

Mr Kobayashi argues that the raw material price difference matters little in the end

Near accord on need to abide by Gatt rules

COUNTRIES participating in the Uruguay Round trade talks have reached "practically complete agreement" on the need to abide by Gatt dispute settlement rules and refrain from unilateral action against each other, the chairman of the group discussing how to strengthen the organisation's dispute settlement mechanism says.

William Dillifore reports from Geneva.

Governments are ready to make their domestic trade laws and enforcement procedures conform with the Gatt mechanism, Mr Julio Lacarte-Muro writes in a paper summarising the present stage of talks in his group.

However, one delegation, which he does not name but which can be assumed to be the US, says a country's right to act on its own should not be condemned outright.

The US argues unilateral action can best be obviated by dropping from the Gatt mechanism opportunities for delaying inquiries and blocking rulings, and by ensuring rulings can be enforced.

Many countries, including EC members, Japan and Canada, want an accord to stop US taking unilateral action against its trading partners under Section 301 of its Trade Act.

A condition for such an

US-Norway salmon row blows up

NORWAY and the US have become embroiled in a trade dispute which has prompted the US to levy a countervailing duty on imports of Norwegian farmed salmon which the US alleges is subsidised in violation of Gatt. Karen Fessell reports from Oslo.

Trade confrontation between Norway and the US has grown since the 1988 Omnibus Trade Bill, which Norway claims has lowered the threshold for US companies to voice complaints against foreign competitors. Several trade clashes from shipbuilding to fishing, have ensued.

Complaints by US salmon farmers spurred an investigation by the US Commerce Department into alleged Norwegian subsidies to salmon farmers. Until the US investigation is completed, a temporary tariff of 100.77, or 24 per cent of the total price per kilogram, has been levied on Norwegian salmon imports. The US is due to decide in December whether to drop, lower or raise the duty.

The US imports about 13,000 tonnes of Norwegian farmed salmon each year, worth about \$700m. Norway is considering taking the issue to a Gatt panel, denying it directly subsidises its salmon farmers.

Norway believes the US attack has come because the US salmon industry is less competitive than its own. Earlier this inquiry into claims that Norway has been dumping farmed salmon on the EC market.

Market quest threatens cosy Soviet-Finnish barter system

FINLAND'S 40-year-old trade system with the Soviet Union, based largely on barter of Finnish manufactured goods for Soviet oil and gas, has been cracking lately. Indeed it never fully recovered from the blow of plunging oil prices in the mid-1980s.

Last month the system received its death knell when Moscow proposed scrapping the system from 1991 for trade based solely on hard currency.

Analysts agree that if Helsinki and Moscow scrap the antiquated clearing-house system, Finnish exports to the Soviet Union will plunge. Mr Jermu Laine, head of the National Board of Customs and a former trade minister, believes that the resulting fall in total exports will be 4-5 per cent.

Helsinki hopes that Moscow will concede a transition period of up to two years before switching to hard-currency trade. Talks between the two countries on when and how to replace the present system will open in autumn and should be concluded this year.

But if Finnish trade levels to the Soviet Union were to fall further and were no longer regulated by trade records, many analysts believe this would tilt Helsinki more towards the European Community. Even if the Soviet Union forges an EC membership out of the question, believing the move could jeopardise its neutrality, Europe's growing importance as a trading partner may force Finland to think again. Finland

last year sent 64.3 per cent of its exports to the EC and the European Free Trade Area market, up from two-thirds of that going to the EC.

The recent cracks in the barter system with the Soviet Union follow a trade relationship which has prospered since the 1950s. High international oil prices helped ramped trade to a peak in the early 1980s, when the Soviet Union accounted for 25 per cent of Finnish trade.

Moscow's proposal that trade move to a hard currency basis has sounded the death knell for the 40-year-old system, writes Enrique Tessieri.

Through five-year trade accords - the latest signed last October during the visit of Mr Mikhail Gorbachev, the Soviet President - Finnish industry has been guaranteed a special place in the Soviet Union's vast markets. But though Finnish-Soviet trade today employs directly 152,000 and indirectly around 800,000 Finns, volumes have slackened considerably since the early 1980s.

The NEC says Finnish exports to the Soviet Union for the first four months of this year have fallen by 33 per cent and accounted for only 11 per cent of Finnish exports, \$544m of Finnish exports or \$244m of

Computer groups in battle over copyright

By Louise Kehoe in San Francisco

LOTUS Development, the personal computer software publisher, has filed suit against two competitors charging that their products infringe the copyright of Lotus' popular 1-2-3 spreadsheet program.

Lotus claims Borland International and The Santa Cruz Operation have copied the "user interface" - the menus and commands - of Lotus 1-2-3. The suits are the latest in what threatens to become an industry-wide copyright battle over the "look and feel" of computer programs.

Apple Computer is embroiled in a similar dispute with Hewlett-Packard and Microsoft.

Lotus' suits were spurred by its victory last week in a copyright suit against Paperback Software, a small California software company.

After the decision, Borland International moved to file suit in California seeking a declaratory judgment that its programs do not infringe Lotus copyrights, but Lotus responded by filing its suit in Boston, where it wants the case tried.

Chile to boost export value to 35% of GDP

By Robert Graham

CHILE PLANS to boost the value of exports over the next five years from the equivalent of 20 per cent of GDP to 35 per cent, according to Mr Alejandro Foxley, the Finance Minister.

Mr Foxley, who yesterday ended two days of talks in London with senior British officials and members of the banking community, told the FT a strong export performance remained the cornerstone of Chile's growth strategy.

While the new democratic government maintained a tight fiscal policy and dampened the overheating inherited from the Pinochet regime, he predicted non-copper exports would grow

an average 12 per cent a year in the next five years.

Chile is Latin America's fifth biggest exporter, fast challenging Argentina.

It has the region's most open trading system, with a uniform 15 per cent tariff. Last year, its exports almost topped \$8bn (\$4.65bn).

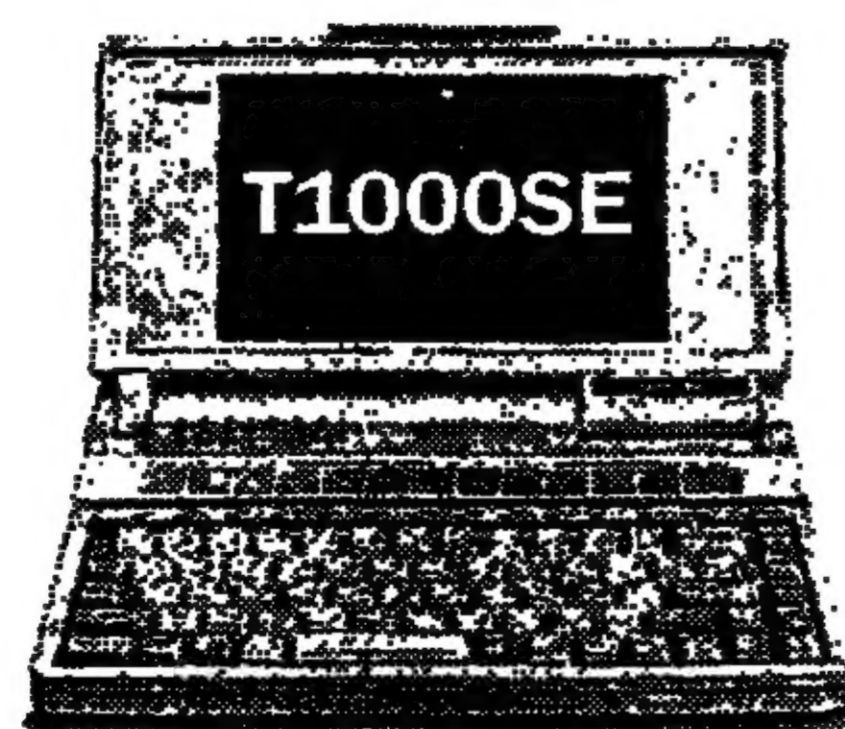
In the past 20 years, exports have grown from representing under 12 per cent of GDP to a current 30 per cent.

Continued growth was expected from forestry, agro-industrial products and mining. Chile's foreign debt was a concern, but manageable.

Trade was seen as the key issue over the next decade.

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INTERNATIONAL NEWS

President of Liberia to resign as rebels close in on capital

PRESIDENT Samuel Doe yesterday agreed in principle to resign, as rebels attacking the Liberian capital, Monrovia, were fighting troops in the city's eastern and western suburbs, Reuters reports from Monrovia.

A delegation, headed by Vice-President Harry Moniba yesterday advised the President to resign and President Doe said he would step down on condition his safety was guaranteed.

Shopkeepers in Monrovia said unruly troops, many drunk or drugged, yesterday terrorised the city, shooting from commandeered cars and extorting money from passers-by.

Rebel sources in neighbouring Ivory Coast, in radio contact with Liberia, said the guerrillas were only 200 metres from Doe's heavily-fortified mansion, where he was believed to be protected by crack troops and Israeli-trained bodyguards.

The six-month-old civil war, launched by President Doe's former associate Charles Taylor and a small band of followers from Ivory Coast, has turned into a bloody tribal feud which has killed thousands of civilians on both sides.

The US State Department had earlier put a special task force in Liberia on 24-hour alert as the rebels closed in on Monrovia.

Hopes rise for Angolan peace

HOPES for a settlement in Angola's 15-year civil war rose yesterday when the central committee of the ruling MPLA announced that the government would "evolve towards a multi-party system," Michael Holman writes.

This has been one of the main demands of the Unita guerrilla movement, led by Jonas Savimbi.

A statement issued at the end of the meeting in the capital, Luanda, which began last Wednesday, said: "Reunite in mind the history and reality of our country, the People's Republic of Angola will evolve towards a multi-party political system."

Western diplomats said last night that the statement, which follows two rounds of talks between the two sides under Portuguese mediation, paved the way for further progress at a meeting due to take place later this month.

However, they added that, although the MPLA's agreement to accept a multi-party system was a big step forward, there might still be disagreement between the two sides over the length of a transitional period before elections take place. Unita was likely to press for a year to 18 months, while the MPLA expected some four years to elapse.

Complicated Marcos trial 'misguided and bungled'

Roderick Oram assesses the improbable — and unsuccessful — battle taken on by the US prosecution

AT ONE stage during the three-month racketeering trial in Manhattan of Mrs Imelda Marcos, Judge John Keene asked: "What am I doing here at 40 Foley Square trying a case involving theft of money from Philippine banks?"

From the outset, the US Government faced an improbable battle pursuing the Marcoses through the American legal system which saw Mrs Marcos acquitted on Monday. It alleged in its indictment in October 1988 that they had through bribery, corruption and outright embezzlement looted some \$200m from their country during President Ferdinand Marcos's years in power.

It was alleged that they invested the money in four prime New York buildings, art and jewellery and in the process concealed their ownership of the property and defrauded US banks. This provided some grounds, the Justice Department said, for trying them in the US.

The indictments were awkward for the Administration of President Ronald Reagan. Less than three years earlier it had offered Mr Marcos a haven

in Hawaii when he was ousted as President of the Philippines by Mrs Corason Aquino. Administration officials said at the time they would never have pursued the legal action if Mr Marcos had slipped into a peaceful and passive Hawaiian retirement. Instead, he had abused US hospitality by working to overthrow Mrs Aquino and had continued to break US laws after his arrival in Hawaii in 1986.

But, what is unfortunate for the US Government, any vague foreign policy gestures it was trying to make have long been lost in the spectacle of the Marcos trial. Observers say it will be remembered as a misguided and bungled legal excursion rather than a decisive event in US policy.

Inevitably, Mrs Marcos's acquittal raises questions about the impending trial of General Manuel Noriega, the deposed Panamanian leader. But the two cases revolve around entirely different issues. Mrs Marcos was tried for alleged US crimes while General Noriega was extradited to the US for crimes allegedly committed abroad.

Although the outcome of Mrs Marcos's trial is largely irrelevant in Washington, it poses a considerable threat to Mrs Aquino in Manila. Many powerful friends and supporters of Mrs Marcos who sat in on the trial say her acquittal vindicates her and her late husband who died before the trial started.

Mrs Aquino says she will still not let Mrs Marcos return to Manila to bury her husband because she is still a "threat to national security".

Philippine officials in New York said after the trial their Government still planned to bring civil suits against Mrs Marcos to attempt to retrieve some of the money and property. Given her acquittal on US criminal charges, the Philippines's chances of success in civil court seem slim.

The biggest problem facing the prosecution in the criminal case was a lack of concrete evidence that Mrs Marcos was actively involved in the alleged financial schemes or at least knew the money came from illegal sources.

Throughout the 90-page indictment, her name was coupled with her hus-

bands. Nowhere does it charge her with acting alone. When Mr Marcos died last September, the prosecution lost its key defendant and had a far harder task trying to prove Mrs Marcos's involvement.

Often during the three-month trial the jury seemed bewildered by the prosecution's parade of 98 witnesses, flowcharts of financial schemes, thousands of pages of documents, scribbled notebooks and ledgers. It was often unclear whether the money was flowing to or from the Marcoses, let alone where it originally came from. It never made the case that Mrs Marcos knew how her husband made the money she spent so freely.

"The case was poorly prepared by the Government and there was no proof. We just weren't convinced there was sufficient proof," Ms Catherine Balton, a retired office manager who was foreman of the jury, said after the trial.

"The government did a terrible, terrible job," said another juror. "They had half truths and not the right witnesses. It was a silly case."

The prosecution's case was hurt further last month when two key Filipino decided not to testify against Mrs Marcos. They were worried about reprisals if Mrs Aquino fell from power, prosecution staff said.

Mr Gerry Spence, Mrs Marcos's defence lawyer, chose to call no witnesses of his own. He relied instead on the prosecution's case getting bogged down in its own lack of evidence.

Given to wearing cowboy boots and hat, rattleskin belts and long rambling speeches to the jury, Mr Spence played up the image of Mrs Marcos as the poor little widow left bereft thousands of miles from her homeland.

Mrs Marcos who had turned up haughtily for her arraignment last November in a dazzling blue evening dress splattered in jewels, appeared every day of the trial in widow's weeds and was often given to weeping.

Mr Spence told the jury in his summation: "Mrs Marcos committed no crime except the crime of loving a man for 35 years, of raising his children, of being his First Lady, of being his ardent supporter, of taking his lavish gifts."

Acquittal puts pressure on Aquino to lift exile order

By Rexie Reyes in Manila

PHILIPPINES President Corason Aquino yesterday faced renewed demands to allow Mrs Imelda Marcos to return home following her acquittal in New York on racketeering charges.

Her government said it would continue to ban the wife of the late dictator, Mr Ferdinand Marcos, saying she could threaten stability, peace and national security.

Mrs Aquino said the case in New York against Mrs Marcos was "a separate matter from

whether she will continue to stay in the US or whether she can return to the Philippines."

But her opponents were quick to seize on her acquittal as an opportunity to raise the Marcos standard. Mr Juan Ponce Enrile, the Senate minority leader, said Mrs Marcos should be allowed to return.

He disputed the government statement that she was a threat to national security. "She is a Filipino and each Filipino has a right to live here,"

Mr Enrile added: "What can Mrs Marcos do to overthrow the republic? Maybe what will be overturned is Mrs Aquino's administration but not the republic."

Mr Rafael Recto, a Marcos lawyer in the Philippines, said the New York trial had taken its toll on Mrs Marcos's health. "She wants to come back, but with the remains of former President Ferdinand Marcos to bury him properly. She is willing to face trial here and all she is waiting for is her travel documents," he said.

Mr Salvador Laurel, vice president, said Mrs Aquino should recognise the universal declaration of human rights and allow the return of Mrs Marcos. Mr Laurel, Mrs Aquino's election running mate is now an opposition leader along with Mr Enrile and Mr Recto.

Some opposition figures believe the return of Mrs Marcos would help unite the splintered opposition.

In legal circles, it was said Mrs Marcos should be allowed to return to stand trial in the Philippines. The New York acquittal, according to financial analysts, will affect the economy and the stock market only temporarily. Mr Joseph Roxas of B. Coyula Securities, one of the top five securities firms in Manila, said the drop in yesterday's trading was only minimal and that it was expected, since the composite index was predicted to head towards the support level of 840 to 850.

The market, Mr Roxas said, had been on a downturn since last week because of the general perception that Mrs Marcos would be acquitted. The reaction of the Aquino government will be a key factor to the movement of the stock prices in the next few days, Mr Roxas said.

"If the government reacts calmly about the event, the market will rebound. If not, it could drop again to the level we started at the height of the most recent coup rumour last month."

Saudis say 1,426 killed in pilgrimage stampede

A TOTAL of 1,426 pilgrims died during Monday's stampede in a tunnel near the Muslim holy city of Mecca, Prince Nayef bin Abdulaziz, Saudi Arabia's Interior Minister, said on Saudi television yesterday, Reuters writes from Mecca.

The minister gave the final death toll more than 36 hours after the disaster at al-Musalam tunnel, where worshippers suffocated or trampled each other in a frantic bid to escape after a power cut halted the air supply.

The minister said a pedestrian bridge leading to the tunnel was heavily congested on Monday morning. At the same time, there were about 50,000 people in the tunnel itself, many times its capacity.

He said pilgrims pushing forward over the bridge caused seven people to fall at the tunnel entrance, causing panic. This led to pilgrims within the tunnel meeting and colliding with other groups of pilgrims, he said. "This regrettable incident led to a number of fatalities among pilgrims, estimated at 1,426 according to Ministry of Health reports," he

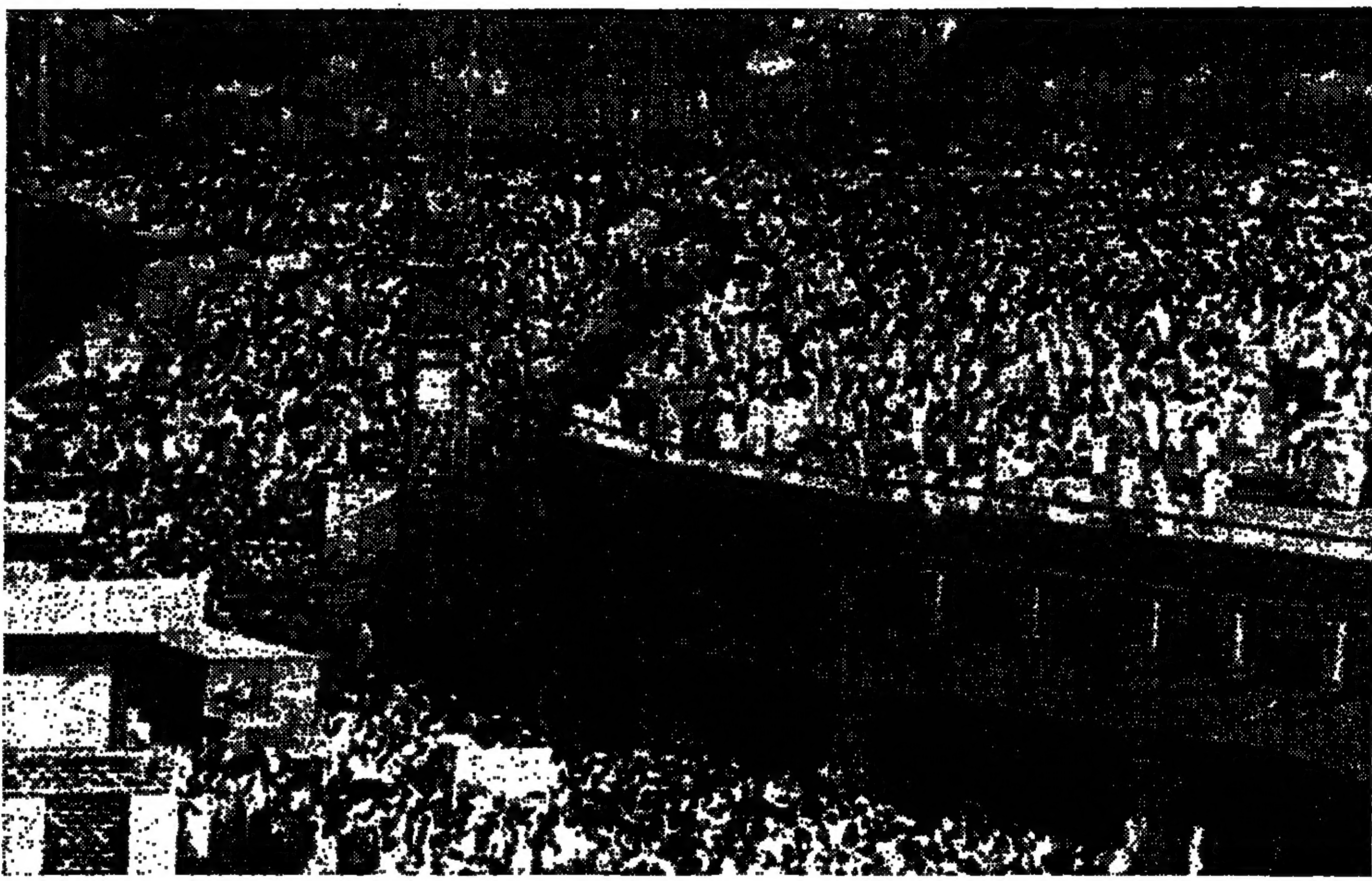
made no mention of a power cut inside the tunnel which witnesses had reported earlier.

"It is the inescapable will of God," said King Fahd, the Saudi monarch who has taken the title of Custodian of the Two Holy Mosques to reaffirm his Islamic credentials and show his concern for the holy sites in Mecca and Medina.

Our Foreign Staff adds: The sheer number of Muslims — about 1bn — and the ease of access to Saudi Arabia by air has made the Hajj an annual logistical challenge for the Saudi government. A multi-billion dollar development plan, of which the tunnel was a part, is under way to expand and improve Hajj facilities.

About 1.5m people, including a delegation from the Soviet Union, have been performing the Hajj this year in the blistering midsummer heat.

Saudi Arabia has set quotas of one pilgrim per 1,000 inhabitants for foreign Muslim countries and prohibited political demonstrations, angering Iran which has boycotted the pilgrimage for three consecutive years.



The masses of pilgrims at this year's Hajj move towards a tunnel at Mecca not far from where many were killed this week

Indonesia and China fix date to restore relations

CHINA AND Indonesia agreed yesterday to restore relations on August 14, ending a break of 23 years and providing a diplomatic triumph for Peking, shunned since its crackdown on dissent last year, Reuters reports from Peking.

The two countries, in a joint communiqué signed by their foreign ministers, also agreed to mark their newly resumed ties with a visit to Indonesia by Li Peng, the Chinese Premier.

"We have just signed a document of historic significance," said Qian Qichen, the Chinese Foreign Minister, speaking to reporters after exchanging a champagne toast with his Indonesian counterpart, Mr Ali Alatas.

Mr Alatas arrived in Peking on Sunday on the first visit to China by a senior Indonesian official since ties between two of the world's most populous countries were suspended in 1967. Indonesia accused China

of supporting an abortive coup in 1965. Up to half a million people died in a wave of killings after the coup, mostly members of the Indonesian Communist Party.

Asked whether China supported communists in Indonesia, Qian said: "I don't know anything about that." He found itself barred from high-level contacts and badly needed official credits from the west and Japan since it called in the army to crush a pro-democracy campaign in June last year.

Peking has long sought support from reform-minded eastern Europe and a string of smaller countries, from Liberia to Grenada, that have recognised rival Taiwan. The Chinese foreign minister suggested that China might soon add another diplomatic feather to its cap, saying that preparations were under way for ties with Singapore.

Mandela rebuked in Britain

By Michael Holman, Africa Editor

MR NELSON MANDELA, deputy president of the African National Congress (ANC), was rebuked in a wave of criticism yesterday for his advocacy of negotiations between the British Government and the IRA.

His arrival at the grand committee room at the House of Commons, where he addressed the all-party Southern Ireland Committee, began on an emotional note when he was greeted by a three minute standing ovation.

But Mr Mandela, who meets Mrs Margaret Thatcher, the British prime minister, for the first time today, has been otherwise warmly greeted of introduction and with a trenchant admonition.

"There is all the difference in the world between the struggle of a liberating movement against an oppressive, despotic regime and violence carried out for political ends in a parliamentary democracy," said

Mr Ivor Stanbrook, the Conservative MP who is chairman of the committee.

"The one may be justified. The other can never. Please recognise and observe this distinction. We will never negotiate with those who seek by violence to destroy our democratic society," he said.

Mr Mandela had told reporters in Dublin on Monday that he favoured negotiations between the British Government and the IRA.

Mr Stanbrook's message was repeated later in the day by Mr Douglas Hurd, the Foreign Secretary, during a 20 minute meeting with Mr Mandela. The prime minister is expected to make the same point, although British officials continue to emphasise that it will not be allowed to divert attention from the main items on the agenda.

Speaking at the end of a 25 minute prepared text, during which he appealed to Britain to maintain sanctions against South Africa arguing that the process of change in South Africa had not yet reached the point of irreversibility, Mr Mandela sought to defuse the row.

"Let me put the record straight. I made no comments about the IRA nor the Government. What I said was to point out that our approach, as the ANC, is that all conflicts whatever in the world they are found should be settled peacefully."

In his talks with Mr Mandela, Mr Hurd concentrated on the need for an end to violence in South Africa, and elaborated on the government argument that President de Klerk's reforms justified the easing of sanctions. Mrs Thatcher will underline these points, urging Mr Mandela to lose no time in getting formal constitutional talks under way.

S Korea's inflation rate heads for double figures

By John Riddling

SOUTH KOREA'S consumer price index rose by 7.4 per cent in the first half of the year, pushing the annual rate of inflation to its highest level since 1981, according to the Economic Planning Board.

The high rate of inflation, which has become the government's principal economic concern, was attributed to sharp increases in the price of agricultural products and service charges, and rising rental costs.

Analysts said that inflation would slow in the second half of the year as anti-inflationary measures, such as a tightening in the money supply and cuts in utility charges, take effect. Inflationary pressures will also be eased by the relatively moderate wage increases awarded this year, which have averaged less than 10 per cent, compared with an average of almost 20 per cent last year.

Iran, Iraq ministers hold direct talks

By William Dulforce in Geneva

THE FOREIGN ministers of Iran and Iraq shook hands and spoke directly to each other yesterday for the first time since the ceasefire in the Gulf War, raising hopes that their two countries will shortly resume talks on a peace settlement.

A summit meeting between Iranian President Ali Akbar Hashemi Rafsanjani and President Saddam Hussein of Iraq "is going to take place sooner or later", according to Mr Javier Pérez de Cuellar, the UN Secretary-General, who organised the face-to-face encounter in Geneva between the foreign ministers.

After separate meetings with the secretary-general, Mr Ali Akbar Velayati of Iran and Mr Tariq Aziz of Iraq agreed to meet in the same room with him yesterday afternoon. They were in the same room on one previous occasion in April 1989, but did not address each other, speaking only to the secretary-general.

Yesterday's meeting sent the right message, that both governments were really committed to finding a peaceful solution as soon as possible, Mr Pérez de Cuellar said.

According to Arab officials, Oman is a likely venue for the meeting between Presidents Saddam and Rafsanjani now that an offer to chair the peace talks from the Soviet Union appears to have run into the sands.

However, Mr Pérez de Cuellar said he had confirmed with the foreign ministers that the presidential meeting would take place "in the context of UN Security Council Resolution 598", implying that peace talks would continue under UN auspices.

Acceptance of the resolution by the two countries led to a ceasefire in August 1988, after eight years of war.

Israeli envoy quits in clash with Shamir

By Hugh Carnegie in Jerusalem

ISRAELI'S ambassador to Egypt, one of the country's most important diplomats, resigned yesterday, citing differences with Yitzhak Shamir's right-wing coalition government.

The departure of Mr Shimon Shamir (no relation), is an awkward development for the government, which is trying to convince a sceptical US and Egypt, the only Arab country to have made peace with Israel, that it is serious about peace moves, despite its uncompromising position on starting talks with the Palestinians about the occupied territories.

The ambassador said his decision was not prompted by any specific steps taken by the Likud-led government, but he said: "I am not in harmony with the programme of the present government."

The coalition's commitment to holding on to the West Bank and Gaza Strip and its unyielding stance on excluding the Palestine Liberation Organisation from any negotiations pose serious obstacles to reviving hopes for an Israeli-Palestinian dialogue promoted by both Washington and Cairo.

The ambassador, an academic expert on Egypt brought into diplomatic service two years ago by Prime Minister Menachem Begin, was also involved in the efforts to get talks going. The talks collapsed in March.

Soviet influx sparks concern over credit

The Bank of Israel yesterday voiced concern over an expected surge in credit demand to cover the absorption of immigrants from the Soviet Union, warning of a threat to the stability of commercial banks if the Government did not help them out, writes Hugh Carnegie.

Mr Amnon Goldsmid, supervisor of the banks and the central bank, said the arrival of 100,000 Soviet Jews a year over the next three years would generate additional demand for funds of \$10bn.

"These are sums the banks will not be able to raise by themselves," he said. "I suggest that the state and the banks share the risk which the Israeli economy has to accept because of aliyah (immigration)."

"I see a great danger for the stability of the banks if they are left to realise this project on their own," Mr Goldsmid added. At present banks carry most of the risk on government subsidised mortgages for new immigrants, a large source of credit demand.

Mr Goldsmid was presenting his annual report on commercial bank performance.

Socialism still attracts leaders of poor South African blacks

The ANC has not written off nationalisation, despite the moderate stance of Nelson Mandela, reports Patti Waldmeir

IT MAY be evident in London and Washington, Prague and Moscow, that state socialism has failed to deliver economic prosperity. But in South Africa, within the huge black underclass, the ANC leader insists that socialism has not been written off entirely.

British businessmen might do well to remember that today when they listen to Mr Nelson Mandela, deputy president of the African National Congress, outlining ANC economic policy at the invitation of the Confederation of British Industry.

For in South Africa, where income disparities remain grotesque, the egalitarian aims of socialism still strike a deep chord. Leaders of the South African Communist Party (SACP), the ANC's closest political

ally, insist that the dismal performance of east European economies can be blamed on faulty implementation of socialist policy: the ideology, for them, remains untarnished.

Mr Mandela, for his part, is not a communist and he has recently done much to moderate his economic rhetoric. For the first few months after leaving prison on February 11, the ANC leader insisted that nationalisation of banks, mining houses and "monopoly" industries was essential.

Such comments sent South African equities and the rand into sharp decline, and Mr Mandela has since toned them down. He told the US Congress last week that the ANC held "no ideological position that dictates it must adopt a policy of nationalisation," adding that the pri-

vate sector was "an engine of growth and development critical to the success of the mixed economy we hope to see in future."

His comments are directly contradicted by an ANC working paper published a fortnight ago which, though not a formal policy document, represents the current state of economic thinking within the ANC and its more radical affiliates, including the hard-left Congress of South African Trade Unions (Cosatu), the largest union federation. The document demonstrates that Mr Mandela's moderation is not shared by many of his colleagues.

The paper speaks of a "transformation of the economy" of which "nationalisation would be an essential part". The state would assume "the leading role in the reconstruction of the economy", the paper says, adding that "overall macro-economic planning and co-ordination" would be the order of the day. Almost as an afterthought, it adds that "efficiency and effectiveness" would be the criteria for state involvement.

The document calls for the burden of taxation to be shifted onto corporations, and for the "restructuring" of the financial sector — including the Johannesburg Stock Exchange, which is seen by the ANC (in the words of one local economist) as a "wasteful and debilitating casino". Conglomerates would be "disembowered" — though it is unclear where buyers would be found for the disembowered assets.

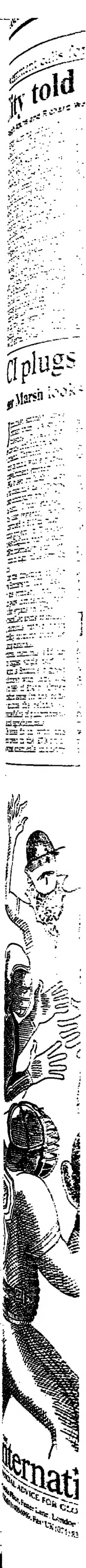
Mr Max Sisulu, head of the ANC economics department, further elaborated policy in a recent interview. Through the jumble of rhetoric in the interview, with the Johannesburg Financial Mail, the following principles emerge: "astute monetary policy will be pursued to regulate and control the actions of the financial sector, rather than the pursuit of arbitrary monetary targets"; and "instead of pursuing the much vaunted policy of trimming state expenditure, our focus would be on redirecting it towards more productive ends." The interview does little more than highlight the confusion of much ANC economic thinking.

A recent interview with the ANC's most articulate economic thinker, Mr Joe Slovo, who is also Communist Party general secretary, seems, on the surface, far more reassuring. "Let's get away from this cliché

"nationalisation," he argues, adding that "proper communism" would not be seen in his lifetime, and possibly not in the lifetime of his children.

He acknowledges that businessmen are not philanthropists; they require "a good return on investment, stability and security". None the less, "we cannot allow that fact to prevent us from using state mechanisms to begin to redress the economic imbalances from which the majority have suffered."

Nobody yet knows how big a role the state will play in the ANC's "mixed economy". Nationalisation may yet be abandoned as ANC policy (though Mr Mandela still refuses to rule it out as an option); but the battle for capitalism is far from won in South Africa — however moderate the claims of its venerable leader.



Government calls for better policing by self-regulatory bodies

City told to crack down on fraud

By Ralph Atkins and Richard Waters

A STERN warning about the responsibility of City regulators to crack down on financial fraud and theft was given yesterday by Mr John Redwood, UK Corporate Affairs Minister.

The job of compliance officers and regulators was to be "feared and respected," Mr Redwood said. The public expected them to protect investors against "fraud, theft and daylight robbery."

His speech - which extended all references to specific cases of alleged insider dealing - was a clear signal of the anxiety of the Department of Trade and Industry to be seen as taking an active role in improving policing of the City.

It came as last month's collapse of the investment firm Dunsdale Securities, with losses of £17m, focuses attention on the effectiveness of the City's regulators.

The Financial Intermediaries, Managers and Brokers Regulatory Association, which was responsible for Dunsdale, knew of no problems at the firm until four days after its sole director had gone missing.

The Government is under strong political pressure to clean up the image of the City of London, particularly as international competition intensifies among financial centres. A critical parliamentary report on insider dealing and fraud in May said "rarely can a government department's discharge of its responsibilities have been held in such low esteem among others."

The Government has argued that the regime has changed

under the 1986 Financial Services Act, which shifted responsibility for policing the City to self-regulatory bodies.

But Mr Redwood's comments underline a belief that there is room for improvement in detecting theft and fraud by these organisations.

He told a conference on international co-operation and reciprocity in financial regulations in London, that no regulator could offer a "100 per cent guarantee" against fraud.

But regulators and compliance officers should follow up press comment, customer complaints or rumours "swiftly, vigorously and in confidence," Mr Redwood said. They should watch for people with previous convictions or "tips with the law" and swap information with other regulators around

the world.

"Writing and rewriting rule books with more and more detailed rules is not likely to increase your chances of catching a crook. If he lies about the basics, he can fabricate rule compliance."

Mr Redwood's comments drew an irritated response from regulators, who generally seemed unhappy about being told how to do their job.

"Everyone knows what should be done - it's the doing of it that's the difficult part," one said.

Another pointed out that the DTI had itself been responsible for regulating Barlow Clowes, and that it was only after the self-regulatory apparatus of the Financial Services Act came into force that Barlow Clowes was closed down.

BRITAIN IN BRIEF



Key talks on trading collapse

Regulators say that a key meeting in the next forty-eight hours will decide whether the Department of Trade and Industry will invoke rarely-used powers to initiate a far-reaching investigation into share dealings connected to the collapsed Dunsdale Securities firm.

The meeting between the DTI and the Serious Fraud Office will evaluate dealing records compiled by the International Stock Exchange of transactions by Dunsdale and some of the City's largest securities and investment houses.

The ISE's check on Dunsdale's trading activity has confirmed that it was not trading in UK government bonds as it claimed to investors. Not a single gilt deal has been uncovered since the SFO moved into Dunsdale on June 6.

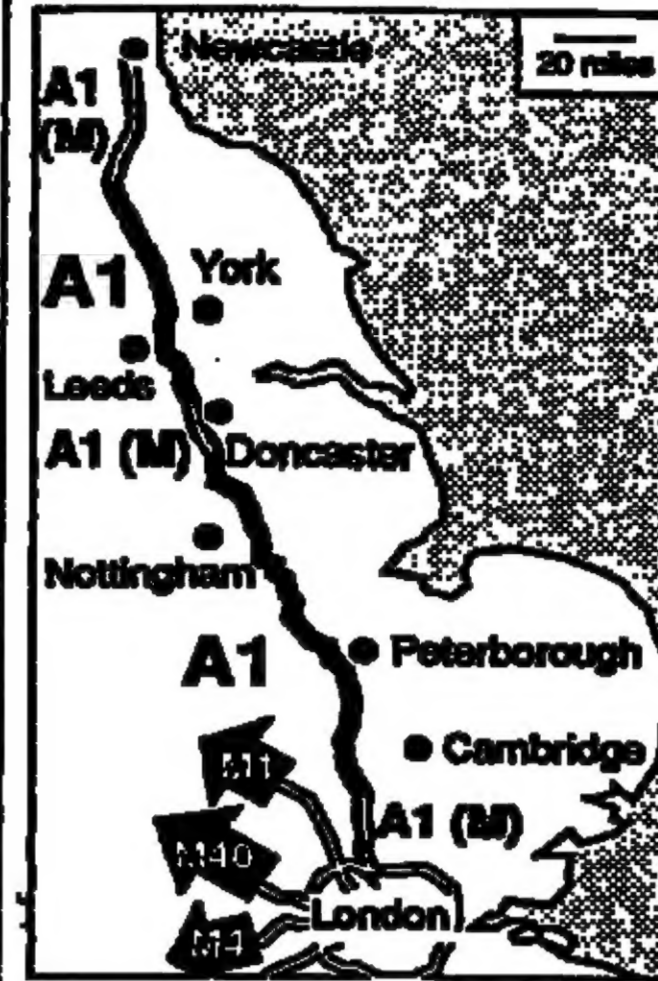
New motorway for Britain

A new motorway - at 260 miles, Britain's longest - will stretch from London to Tyneside by the end of the 1990s, it was announced yesterday.

It will largely consist of an upgrading of the existing A1 trunk road linking the capital with Doncaster, Leeds, Darlington and Newcastle upon Tyne.

About 75 miles of this route is already motorway, a further 48 miles is programmed to be improved to motorway standard, and another 75 miles is due to be upgraded to dual three-lane trunk road.

The effect of the decision announced by Mr Cecil



Parkinson, the Transport Secretary, yesterday will be to fill in all the missing links between the A1(M) sections with dual three-lane motorway.

It will also help deflect criticism that the Government is spending too little on Britain's transport infrastructure in the run-up to the single European market and the opening of the channel tunnel.

Split over Channel 5

Britain's broadcasters seem to be deeply divided over what should be broadcast on Channel 5, the planned television channel capable of reaching around 70 per cent of the country and which will be put out to competitive tender late next year or early 1992.

The lack of consensus, more than two years after the

Government first made it clear it wanted a fifth channel to provide more competition for advertising revenues, emerged at a meeting of broadcasters in London last week.

At the meeting, called by Mr Michael Braham, chief executive of Broadcast Communications, an independent television production company, there was support for turning the channel into a "knowledge channel," specialising in education and documentaries on subjects such as science, nature and the environment.

British Rail cuts services

British Rail is to cancel 5 per cent of suburban passenger services running out of London's Waterloo terminus from Monday July 16 because of crew shortages.

It said the cuts had been caused by a postponement of plans to convert the trains to driver-only operation, resulting in a temporary shortage of guards.

Driver-only operation was originally intended to have been introduced on Waterloo suburban services in the early summer, but has been put off until the autumn because of the need to incorporate additional safety measures.

US group buys Domain Power

Domain Power, a power supply manufacturer set up two years ago with the backing of the Scottish Development Agency and 31, the venture capital group, in an effort to develop the indigenous Scottish electronics industry, has been sold to a subsidiary of Raytheon, the diversified US electronics group.

Domain Power, which has grown rapidly over the last two years, was widely regarded as one of the most successful attempts to develop Scottish electronics in the wake of substantial foreign investment.

However, company executives said the takeover was essential to safeguard its future. Although Domain Power will take the name of Sorensen, the Raytheon subsidiary, it will maintain its own research and development facilities and manufacture its own products. It will also assemble Sorensen power supplies.

The US company is planning

to invest £3.5m in the company to expand production, creating about 400 more jobs.

National Power names chief

Sir Trevor Holdsworth was yesterday appointed part-time chairman of National Power, the largest electricity company heading for privatisation, at a salary of £185,000.

This is about 70 per cent more than the salary paid to Lord Marshall, who resigned as full-time chairman of the



Holdsworth: high earner at National Power

Central Electricity Generating Board in November.

The big increase reflects the jump in salaries that is likely among senior electricity managers after privatisation.

House prices fall by 5.3%

House prices in the UK during the 12 months to the end of June fell by the biggest amount since 1954 according to figures published yesterday by Nationwide Anglia, Britain's second largest savings and home loans association.

The society said that prices on average had fallen by 5.3 per cent during the past year. This was the biggest fall since the society began keeping records in 1952.

House prices in real terms, after allowing for inflation, were 14 per cent to 15 per cent lower than at the same stage last year, said the society.

It forecast that prices would fall by about 10 per cent this year but could rise modestly next year if interest rates start to decline.

ICI plugs kitchen sinks for the 1990s

Peter Marsh looks at the group's international investment strategy

Upmarket kitchen sinks rather than low-grade plastics packaging. These are the application areas that Imperial Chemical Industries has in mind while pursuing a development strategy for the 1990s based on high-value areas of chemicals as opposed to cheap commodity products.

One detail of that strategy became clear yesterday when ICI announced a £100m manufacturing project on Teesside, north-east England, that is part of a £450m international investment plan in high-value acrylic plastics.

Under the direction of Sir Denis Henderson, ICI chairman, the company has in recent years increasingly targeted for expansion low-volume, specialised areas of industrial chemicals rather than commodity products such as packaging materials.

Industrial chemicals add up to the biggest single part of ICI, which is Britain's biggest manufacturer with expected sales in 1990 of £14bn. Other big product areas for the company include the relatively high-value fields of pharmaceuticals and agrochemicals.

ICI's ideas fit in with the general trend in the £700bn-a-year world chemicals industry

in which most large companies have attempted to steer away from bulk products.

The latter, which include many types of plastic and standard industrial materials like soda ash, are sold in high volumes and at low prices. Prices of these materials have a habit of plunging unexpectedly lower due to sudden fluctuations in demand, harming profitability.

Acrylics plastics, which end up in a variety of uses such as coloured sinks, architectural fixtures and engineering mouldings, are a good example of a speciality chemical. These plastics - not to be confused with acrylic fibre - constitute a world market of only about £1.5bn a year.

ICI accounts for about a quarter of total revenues from the material. It is the third biggest company in this field after Rohm and Haas of the US and a joint venture between Huls of West Germany and the US's American Cyanamid.

The acrylics world market is then covered with local international plastics sales, which are about 100 times higher. But while many forms of low-value plastics - for use in fields like packaging, standard automo-

tive fittings and pipes - look likely to grow through the 1990s at a few percentage points a year, acrylics sales are expanding at an annual rate of 5-10 per cent.

Price competition in acrylics is much less than in the commodity materials such as polyethylene, polyvinyl chloride (PVC) and polypropylene. This reflects the smaller number of world players.

While acrylics sells for £1,500 to £3,000 a tonne, bulk plastics normally have prices of less than £1,000 a tonne. Profit margins in the higher-value material are significantly higher.

All these points explain why ICI is much keener on expansion in acrylics and similar upmarket plastics than on other parts of its \$55bn-a-year industrial chemicals business which are concerned with commodity materials.

It is an open secret in the chemicals industry, even though ICI officials are not commenting, that the company is considering a divestment of its activities in some areas of commodity materials such as polypropylene. It may also be interested in offers for its 50% in European Vinyls, a big Brus-

sels-based producer of PVC in which the other stakeholder is Enimont of Italy.

As for acrylics, Mr Philip Felcey, general manager of ICI's acrylics division, said yesterday he hoped the £360m of ICI sales from these materials this year will "grow significantly" by the mid 1990s.

Much of this expansion should take place in the US and Far East, regions which each account for only about a sixth of ICI's acrylics sales at present. The UK provides acrylics sales of £100m a year for ICI while the rest of western Europe accounts for another £140m.

Much of the £450m acrylics investment plan by ICI is aimed at increasing the output of ICI's plants for turning methyl methacrylate, the main raw material for acrylics, into finished sheet or resin which is then sold to the final user - such as a maker of kitchen sinks or a plastics-moulding company. ICI runs 12 of these plants around the world, including the US, Japan, Australia, Taiwan, France and Holland. It is considering opening several more, as well as extending existing units.

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UK NEWS

Watchdog urges progress towards EC-wide legislation

Timeshare industry faces legal curbs over ethics

By Maggie Urry

LEGISLATION to control the timeshare industry was proposed by Sir Gordon Borrie, director general of the Office of Fair Trading, when he published a report on the industry yesterday.

The Timeshare Developers Association, which represents a minority of companies in the industry, welcomed the report. The report follows a year long study of the industry which Mr Eric Forth, the consumer affairs minister, asked the OFT to undertake following numerous complaints from consumers.

Mr Forth said yesterday he hoped to give his responses as soon as possible.

The industry has been plagued by unethical operators using high-pressure selling techniques to sell timeshares, which give the buyer the right to occupy a holiday home for a certain week or weeks each year.

Sir Gordon said, "I can only conclude there is a core of companies in the industry which has taken a conscious decision to ignore usual business ethics."

The OFT had received over 2,500 letters from individuals and more phone calls. Sir Gordon said two-thirds of these were generally favourable, though some included specific complaints about aspects of the industry.

The OFT found that a typical timeshare, costing £5,000 for a week, worked out more expensive than taking self-catering holiday packages every year over a 15 year period.

Further, resale prices of timeshare weeks were often 20 to 50 per cent below the ruling selling prices and some owners found it was impossible to sell their weeks.



Sir Gordon Borrie

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The report quotes TDA figures suggesting that nearly 200,000 Britons own timeshares.

The TDA said, however, that between 70 and 80 per cent of these had bought their timeshares overseas, which might take the contracts outside the jurisdiction of any UK legislation.

Sir Gordon said he recognised that overseas operators might escape UK law but said that in many cases there was a UK connection, perhaps through a parent company, or through credit card companies when payment was made.

He said he hoped other countries would also adopt regulation and that perhaps the EC could legislate on the timeshare industry.

Under his recommendations a new law would require timeshare sellers to give buyers a prospectus giving full details of the price, ownership, maintenance charges and other aspects of the timeshare.

There would be a 14-day "cooling-off" period during which people could pull out of contracts without penalty, and there should be safeguards that money paid to developers should not disappear.

Mobil first to buy gas for UK industrial customers

By David Thomas, Resources Editor

MOBIL, the US-based oil company, is to sell gas direct to UK industrial customers — thanks to the help of British Gas, which will be its main competitor in the newly liberalised market.

This is the first time that British Gas has sold another company gas in order to encourage emerging competition in the UK gas market.

"It's a strange position for a company to be in, but we feel we have to encourage the com-

petition," British Gas said yesterday. Customers using more than 25,000 therms of gas a year are now allowed to shop around for competitive gas supplies.

However, British Gas held a monopoly of this business until earlier this year, when Quadrant, a joint venture between Shell and Esso, became the first newcomer to enter the market.

Mr James McKinnon, the industry's regulator, stressed

last month that competition was being inhibited by a lack of gas not committed to British Gas. He has been pressing British Gas to make some of its gas available to competitors.

Mobil announced yesterday that it had set up a UK gas marketing subsidiary, which would have 70m therms a year of gas available for sale to the industrial market from October. Most of this is UK southern basin gas sold to it

by British Gas. Mobil also unveiled its first customer — Wedgwood, the Staffordshire-based china company, which will take 10-12m therms a year from Mobil from December.

Mr Ted Trafford, managing director of Mobil Gas Marketing, said Mobil hoped to account for 8 per cent of UK gas sales by the end of the century.

A new pipeline from the Mobil-operated Beryl field to

St Fergus in Scotland will give Mobil access to a new source of gas for industrial customers in late 1992. Mr Trafford said Mobil hoped to buy gas from other companies before that.

Mr McKinnon, director general of the Office of Gas Supply, welcomed the Mobil announcement. "This is what I've been working for over many months. But it is only just a beginning and I hope to see many more such deals."

FT CONFERENCE: NORTH SEA OIL AND GAS

Industry's guardian confident of role post-1992

THE inauguration of the single European market at the end of 1992 is not expected to affect the Offshore Supplies Office (OSO) of the Department of Energy, which promotes the UK oil services industry, according to Mr John d'Ancona, OSO director general yesterday, writes Steven Butler.

Mr d'Ancona, speaking yesterday at the FT North Sea Oil and Gas conference, however expressed concern that the UK industry could be affected by unfair competition from foreign companies.

"Even as recently as this year we have found several cases of strong influence being brought to bear behind the scenes to place orders on a

national rather than an economic basis," he said.

He expressed concern that market-oriented British companies may be undercut by subsidised state companies, or by corporations with structure that makes it impossible to achieve the transparency needed to monitor rules on public procurement.

Many in the oil industry have expected the OSO would be wound up because of suspicions in Brussels that it unfairly protects British industry. However Mr d'Ancona said the OSO merely worked to insure a fair opportunity to British suppliers.

Mr Peter Gaffney, senior partner at Gaffney, Cline &

Associates, questioned whether the level of business activity associated with the North Sea was quite as buoyant, or its future quite so secure, as many observers believe.

"If the price of oil has gone down by five or six dollars since the start of the year, who's to say it won't go down another four or five dollars?" he said.

He pointed out that international drilling rig utilisation was running only about 80 per cent of capacity, and that until this rose above 90 per cent day rates for rigs were unlikely to justify replacing current equipment, which is ageing. He suggested that the high level of activity in the UK was at least

partly the result of the UK tax system, in which up to 85 per cent of exploration costs can be covered by tax rebates. Future activity would be highly sensitive to changes in the tax regime.

Mr Jack Gregory, director and general manager of the exploration and production division at British Gas, said that British Gas was looking overseas to exploration and production in order to cope with the uncertainties in its UK gas supply business, where competition is coming into force.

British Gas was hoping to establish production in the North Sea, which could potentially lead to gas sales into the UK. British Gas would also be

looking to sell the output of North Sea fields direct to other gas distributors or end users. Mr Gregory said British Gas expected that 10 gigawatts of gas-fired power stations would be on stream by the end of the century, consuming 20 per cent of UK demand a day.

Mr William Cairns, chairman of the International Council on Oil and the Environment, highlighted the critical issues of environmental pollution facing operators in the North Sea. Mr N J van Dijk, general manager of Nederlandse Aardolie Maatschappij, a joint venture Shell/Esso company, discussed what he saw as excellent exploration prospects on the Dutch continental shelf.

PARLIAMENT

Pöhl argues case for strong central bank for Europe

By Anthony Robinson in London

MR KARL OTTO PÖHL, who as president of the German Bundesbank is now responsible for monetary discipline throughout the two Germanys, yesterday argued the case for a strong, independent European central bank and a single currency.

Effective monetary union he said, when appearing before a House of Lords committee in London, requires a powerful institution "which has to be independent of national governments and the European Commission. For such an institution to be effective it has to take a medium-term view and needs the necessary instruments."

"It must have sole control over the price and quantity of money and have sole authority in monetary policy," he said. He cited the US federal reserve and the Bundesbank itself as "powerful, centralised institutions whose decisions have to be implemented without any modification" as models for the future European central bank.

In this he was supported by Lord O'Brien, one of two former governors of the Bank of England present, who said it was "simply impossible for 12 central banks to work out monetary policy."

Mr Pöhl emphasised the importance of improving public awareness of the progress made thus far towards monetary union and the significance of the European Commission's decision to hold an inter-governmental conference later this year to amend the Treaty of Rome.

"As I understand it the idea is to change the treaty so as to create the legal framework for economic and monetary union," he said.

Describing progress towards monetary union as "a revolutionary process, not a revolutionary act" he noted that a great deal of national sovereignty had been given up through the abolition of capital controls in most community countries and the high degree of convergence already reached by countries inside the exchange rate mechanism (ERM).

Asked by Lord Addington, the committee chairman,



Karl Otto Pöhl

whether convergence would speed up after the start of phase one of the Delors plan on July 1 Mr Pöhl noted that membership of the ERM had already helped convergence by obliging members to submit to the discipline exerted by the D-mark as anchor of the system.

Noting that external D-mark holdings now totalled DM500bn Mr Pöhl said that foreign investors and the German people would not be satisfied with a new European Central Bank unless it was at least as successful as the Bundesbank in safeguarding the value of the currency.

Mr Pöhl was not asked his views on the timing of the UK's future entry into the ERM but he noted that membership was a "unilateral decision." But, he noted, "the terms have to be negotiated among the central banks as the ERM is an agreement between central banks."

The Bundesbank president politely but firmly showed his doubts about the "hard-ECU plan" proposed recently by Mr John Major, the UK Chancellor of the Exchequer. Describing it as "a very sophisticated proposal which I am not sure I fully understand," he added that his first response was that "it does not solve the problem. It is not very helpful to add a 13th currency, it will complicate the question of monetary union and lead to confusion in the markets between the existing 'basket-ECU' and the proposed 'hard-ECU'."

Thatcher hedges on timing of ERM entry

By John Mason

MRS Margaret Thatcher, the Prime Minister, yesterday refused to give any indication of the precise timing of Britain's entry into the European exchange rate mechanism, in spite of a forecast by Mr Karl Otto Pöhl, president of the West German Bundesbank, that this would take place "soon."

During questions in the House of Commons, she stressed that Britain was committed to joining the ERM, but strongly underlined her continuing opposition to a single currency and European central bank.

Mr Paddy Ashdown, the Liberal Democrat leader, challenged Mrs Thatcher over Mr Pöhl's comment on Monday that Britain's insistence on

joining the ERM "when the time was right" meant "soon."

The Prime Minister replied: "I would not disagree that we are bound to join the ERM. We have accepted that. We shall join when the time is right." "I do not know what Mr Pöhl means by 'soon,' I could agree or disagree depending on what it means." She repeated that Britain would join when the conditions agreed at the Madrid summit were met. However, Mrs Thatcher then pointedly rejected Mr Pöhl's support for a central bank.

Mrs Thatcher said both a single currency and central bank with an unaccountable board of governors had been "totally rejected" by the Commons when it debated Stages 2 and 3 of the Delors proposals.

The advertisement shows a collage of various international banknotes, including US dollars, British pounds, and other currencies, arranged in a circular pattern around the Citibank logo. The logo is a stylized 'C' with a globe inside. The text 'CITIBANK' is prominently displayed at the bottom of the collage.

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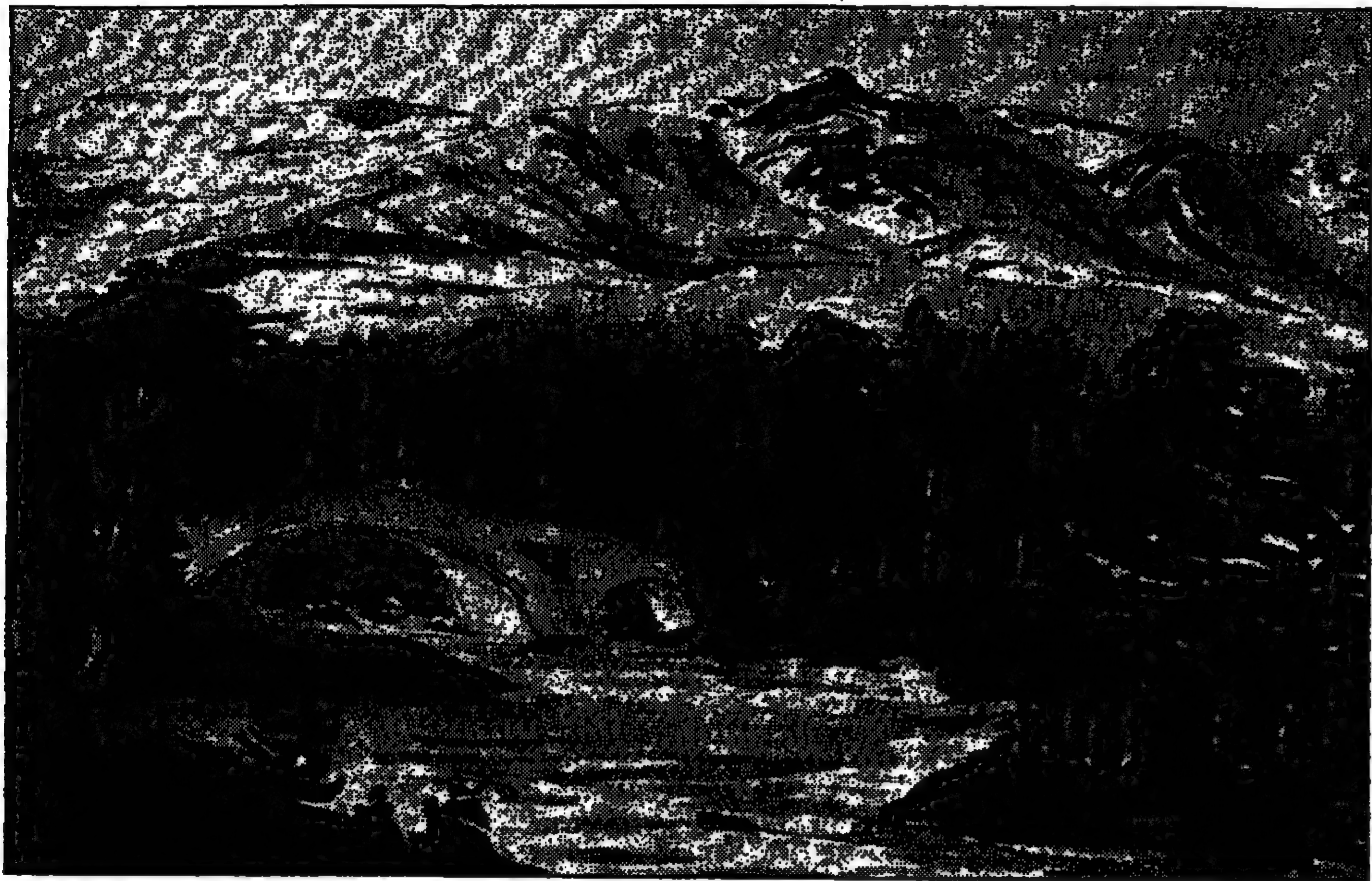
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To create a forest in East London we're putting up 50 trees in Bloomsbury.



H.R.H. The Prince of Wales's watercolour "Brig O'Don, Balcony", on show at the exhibition, but not for auction.

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Car valuation date depends on loss

IBL LTD v COUSSENS
Court of Appeal (Lord Justice Neill, Lord Justice Nicholls and Lord Justice Butler-Sloss)
June 27 1990

DAMAGES payable as an alternative to returning converted goods are awarded to compensate for loss actually sustained, which varies from case to case; and accordingly, the date at which to value the goods for the purpose of calculating damages depends on the circumstances and is not necessarily the date of conversion or date of judgment.

The Court of Appeal so held when allowing an appeal by the plaintiff, IBL Ltd, from part of a judgment of Mr Patrick Bennett QC sitting as a High Court judge, ordering the defendant, Mr Cousens, to pay £25,000 to IBL for retention of two company cars after termination of his employment.

LORD JUSTICE NEILL said that until February 19 1988 Mr Cousens was chairman of IBL.

In 1987 control of IBL passed to Inspectorate International SA and its subsidiary, Meridian Group Services. IBL bought an Aston Martin and a Rolls-Royce for Mr Cousens' use.

Soon after IBL had been taken over, difficulties arose between Mr Cousens and the new owners, and he was dismissed.

On January 30 1988 Meridian wrote to Mr Cousens giving him the option of returning the two cars or buying them for £52,000 by the end of January.

Mr Cousens did not return the cars or pay by the end of January. On February 4 Meridian wrote again extending the offer for seven days. It said that in the event of a cheque not being received within that time, the company would recover its property.

On August 18 IBL issued a writ claiming an injunction requiring Mr Cousens to deliver up the two cars, and damages for breach of contract and/or conversion.

Deputy Master Rose ordered Mr Cousens to give up possession within 28 days, under RSC Order 14 rule 9.

Mr Cousens retained the Aston Martin. He returned the Rolls-Royce.

Mr Patrick Bennett QC sitting as a High Court judge dismissed an appeal by Mr Cous-

sens, and ordered him to (1) return the Aston Martin, or (2) to pay IBL £52,000 in which case IBL was to deliver up the Rolls-Royce and registration documents for both cars to him.

On the present appeal IBL did not seek the return of the cars, but argued that the judge erred in giving Mr Cousens the option to retain them on payment of £52,000. It was argued that £52,000 merely represented the figure at which IBL had offered to sell the cars to Mr Cousens in February, which offer had been refused, and that the cars had substantially increased in value since then. It contended there had been a continuing conversion of the cars and that damages for that conversion should be assessed on the basis of the value of the cars at date of judgment.

For Mr Cousens it was argued that the cars were converted in February 1988 when Mr Cousens declined to return them to IBL. Their value then was £52,000.

The Torts (Interference with Goods) Act 1977 was enacted to amend the law relating to conversion and other torts affecting goods.

Section 1 provided that wrongful interference with goods should mean *inter alia* (a) conversion of goods (b) trespass to goods; (c) negligence so far as it resulted in damage to goods or to an interest in goods.

By section 2(1) the tort of detinue was abolished, so the only cause of action with which the appeal was concerned was conversion of goods.

Though detinue was abolished, the relief now available in proceedings for wrongful interference might include relief which would not formerly have been available in an action for conversion, but could have been claimed in an action for detinue.

At Common Law conversion was a purely personal action and resulted in judgment for pecuniary damages only. An action for detinue, however, was akin to an action *in rem* and was appropriate where the plaintiff sought specific restitution of his chattel.

The act gave the court the power to grant remedies in an action for conversion which previously would only have been available in an action in detinue. Section 3 provided

that in proceedings for wrongful interference (2) the relief is - (a) an order for delivery of the goods... (b) an order for delivery of the goods but giving the defendant the alternative of paying damages by reference to the value of the goods... together... damages; or (c) damages.

The order made by the Master was in the section 3(2)(a) form. The order made by the judge was in the section 3(2)(b) form. Neither order provided for payment of consequential damages.

IBL argued that as the judge's order was in a form which could have been made before 1977 only if the action were framed in detinue, it was appropriate that damages should be assessed on the same basis as they would have been assessed in such an action. It followed, therefore, it was argued, that the value of the cars should have been calculated as at date of judgment.

The 1977 act did not give guidance as to the date at which value was to be assessed.

In *Brands v Western Transport* (1981) QB 864, 870 Lord Justice Brandon re-stated the general principle that "Damages in tort are awarded by way of monetary compensation for loss... actually sustained, and the measure of damages... may vary infinitely according to the individual circumstances of any particular case".

At the same time it was necessary to bear in mind that where the goods were irreversibly converted and not recovered, the general rule was that the measure of damages was the goods' value at time of conversion (see *BBMD v EDA Holdings* (1990) 1 WLR 409).

Examination of the 1977 act in the light of existing Common Law rules indicated that when making an award of damages under section 3, the court was faced with competing considerations.

Those included: (a) the fact that detinue had been abolished; (b) the fact that the remedies now available for conversion had in effect extended its scope to a proprietary claim; (c) the general rule that where goods had been irreversibly converted, value was assessed at date of conversion; (d) the former general rule that in detinue the value of goods detained was assessed at date

of judgment; (e) the fact that after conversion the value of goods might fall instead of rise. If one took into account all those considerations and the fact that several different remedies were available under section 3, it was not possible or appropriate to lay down any universal rule as to the date by reference to which the value of goods was to be assessed. The method and date of valuation would depend on the circumstances.

The case was concerned with an order under section 3(2)(b).

When damages were assessed it would be necessary for the court to: (1) decide whether, if the cars had not been converted, IBL would have kept and used them or would have disposed of them; (2) decide whether, if the cars would have been kept and used, IBL could and should have obtained replacement cars and, if so, when; (3) if (a) the cars would have been kept and used, and (b) if it was decided that IBL was under no obligation to obtain replacements or would have been unable to do so, the court would assess damages in the light of those findings - damages on that basis were likely to be assessed by reference to the value of the cars at date of judgment; (4) if the court decided that the cars would not have been kept and used or replacements could and should have been obtained, an earlier date should be used for calculation of damages; (5) calculate any damages suffered by reason of loss of use of the cars between date of conversion and the date ascertained in accordance with (3) and (4).

The appeal was allowed. The matter was referred to a Master for calculation of damages.

LORD JUSTICE NICHOLLS, in a concurring judgment, said that the sum payable as the alternative to returning the two cars was to be calculated by reference to value at such date as would fairly compensate IBL for its loss if Mr Cousens chose to pay and keep the car.

Lord Justice Butler-Sloss agreed.

For Mr Cousens: Steven Gee (Herbert Smith)
For IBL: Richard Lord (Price Chalmers)

Rachel Davies
barrister



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MANAGEMENT

Corporate governance

Why the ideal board remains so elusive

Simon Holberton considers the role of non-executives and the institutional shareholders in the 'short-termism' debate

If there is one thing that last week's Department of Trade and Industry conference on short-termism, the City and industrial innovation, underlined it was that the issue will not go away.

Despite the rather muscular dismissal by Nicholas Ridley, the secretary of state at the DTI, of many of the solutions to the perceived excesses of the City, those looking for action know that nothing is foregone, especially the tenure of the DTI's highest ministerial job.

But one of the ideas which the secretary of state did embrace - the creation of institutional shareholder committees to nominate non-executive directors - was seen by interested parties as a non-starter. The notion of a committee of institutional shareholders proposing and disposing of directors for Britain's companies appears to find little support among those most interested in improving corporate governance and promoting active investors.

The opposition to Ridley's idea rests on the view that a director of a company is there to represent the interests of all shareholders, not just those who possess superior clout. A further objection is that of information: no single group of investors should have or be seen to have the opportunity of privileged access to a company's plans by way of a director representing their interests.

Yet for some there is a space between what Ridley has proposed and the outright rejection of it. This embraces both improving the structure and membership of boards of directors and providing for the use by large shareholders of their undoubted potential influence on management but it draws short of dictating who should join the board of a company.

Advocates of a more systematic policy towards corporate governance, such as Jonathan Charlish, adviser to the governors of the Bank of England, argue that industry's fear about the commitment of its shareholders could be lessened if companies brought more outsiders on to their boards of directors. Link this to a more active posture by institutions and it would foster trust, understanding and the adoption of a longer-term perspective by shareholders - or so the theory goes.

There is simple evidence that investors are concerned about the state of corporate governance in the UK. Earlier last month the Association of British Insurers published a discussion paper in it, the ABI expressed concern over the combination of the role of chief executive and chairman, advocated a greater role for non-executive directors, and called for greater transparency in the determination of senior executive remuneration.

A recent survey of executive pay and issues facing British boardrooms, published by Korn/Ferry International, showed that companies moved quickly last year to increase the representation of non-executives on their boards.

During most of the 1980s, non-executives occupied about a third of board seats; last year

it shot up to 44 per cent and, for companies with sales in excess of £500m, the ratio was nearly 50:50.

The claim for non-executive directors is their independence. This is important when it comes to the determination of senior executive salaries and the evaluation of proposed management buy-outs. Equally important is the non-executive director's role in commenting on the company's corporate strategy where, the ABI says, "they can bring an objectivity and independence of view borne by outside experience."

The list of qualities a director needs are, however, such that some observers are left wondering whether the pool of potential talent is large enough to satisfy the perceived need for them, and why these exemplary persons are not occupied elsewhere actively managing successful companies.

Paul Marsh, professor at the London Business School, says also that people should be realistic about what non-executive directors can achieve. "I suspect that if we got it right overnight and then looked at British industry 10 years hence we would notice only a small improvement in the performance of industry."

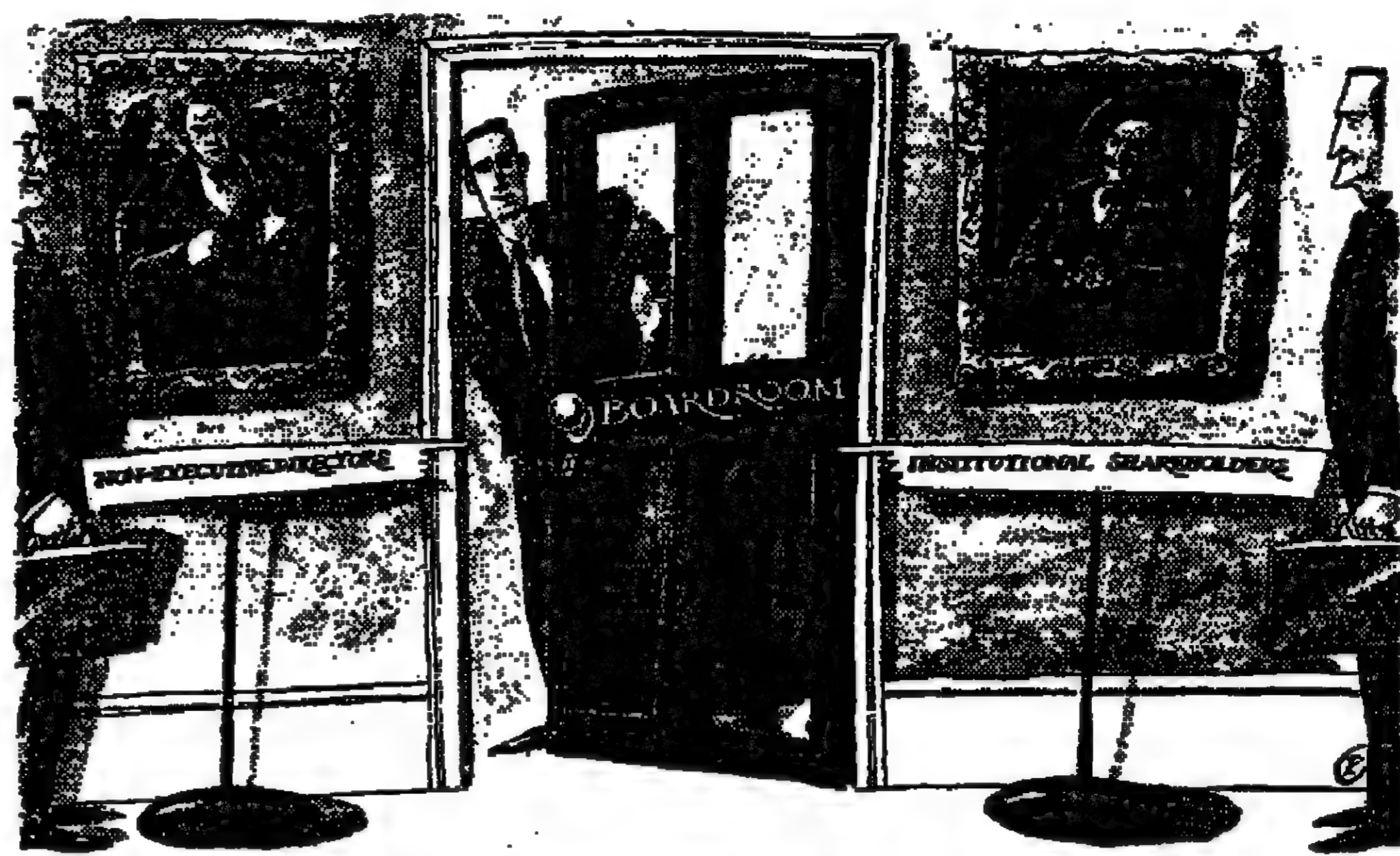
He says the idea of taking non-executives on to boards is sold as a way of improving

British business. In reality, however, non-executive directors are able to do little more than the albeit valuable task of asking questions and acting as watch-dogs over possible management excesses. "They don't have the detailed knowledge of the business to make informed decisions," he argues.

But in their role as watch-dogs, the Korn/Ferry study suggests that, on the face of it, boards of directors are working harder and monitoring more closely the activities of management. In 1989 only 13 per cent of UK companies reported having an audit committee, now 45 per cent have; in 1989, 36 per cent of companies had a remuneration committee, now 63 per cent have.

It is not surprising that the biggest area of growth should be remuneration. The 1980s have seen a huge growth in management literature on the alleged positive relationship between the enrichment of senior management and shareholder wealth, where shareholder wealth is defined as the year-to-year growth in a company's market capitalisation.

Senior executives receive bonuses for exceeded planned growth in a single year's profit before tax, bonuses which can amount to a significant percentage, or multiple, of base salary. Executives are also



remunerated for succeeding in increasing a company's earnings per share above a specified threshold over periods of one to three years. Share option schemes encourage senior management to focus on the growth in a company's profits and share price.

Institutional investors have broadly supported senior UK management in these changes to remuneration. As investors, they too benefit from a steady growth in earnings per share. But it does strike many, on both sides of the City/industry divide, as a little inconsistent for industrialists to bemoan the inability to invest for the future yet seek to be evaluated for purposes of remuneration on their success at generating short-term profit increases.

The Korn/Ferry survey also discloses a growing concentration of power in the hands of the executive chairman. Today 32 per cent of companies have the roles of chief executive and

chairman combined; a year ago the figure was 25 per cent. Where a company has a non-executive chairman it is more than likely that he was formerly a full-time employee of the company.

The ABI's discussion paper pointed out that combining the roles "can give rise to conflicts and concentration of power." James Shillingford, managing director of M&G Investment Trusts, agrees. "We feel strongly that boards of companies are appropriately structured and constituted with competent directors," he says. "We do prefer to see the roles of chairman and chief executive separated. While we are not convinced that the company's performance would necessarily be better we have seen, with a number of companies that have got into difficulties, that both roles have been combined."

The other leg to bolstering better, long-term relations

between management and shareholders is for institutions to adopt a more active role. This is especially talked about in the context of detecting and correcting management failure before the bluntest instrument for correction - a takeover - becomes the only option.

Donald Brydon, managing director of BZW Investment Management and chairman of the Institutional Shareholders Committee, has suggested that institutions, through a formally constituted agency, evaluate an ailing company's business strategy. The analysis and options for change could form an agenda for discussion between shareholders and the company concerned. Its envisaged approach being offered to only a handful of the most pressing cases.

It is too soon to determine whether Brydon will be able to generate enough support among his colleagues. Some senior institutional investment

managers believe that it is not their job to manage companies they invest in. "One is not in the business of setting oneself up as alternative management for all and sundry," says one.

Possibly it is their sheer size and the mystique they are cloaked in but the power of institutions is often over-estimated. They find it difficult to co-operate - hence their collective power, which could be great, is rarely marshalled - and when they do intervene it is not always welcome.

As a top manager of one of Britain's biggest investors notes: "Our strength increases the weaker the company's position is. Until the company's strategy has been proved wrong all one is doing is simply exchanging opinions. You do need to be pretty sure of your position before you can push things through."

The chance of doing something when the situation is quite clear is pretty good. But that means the situation has been deteriorating for some time. It is much more difficult when you express your views at an earlier stage, especially if the non-executive directors are prepared to back their executive colleagues.

The search for better relations and understanding between owners and managers is unlikely to end with one or more non-executive directors on the board of every British company.

It may be a useful step in that direction but, as Marsh of the LBS notes, the problems of British industry as it faces an increasingly international marketplace - problems of competitiveness, quality and excellence - are ones best addressed by the day-to-day managers. A watch-dog cannot do that, less so a group of investors which tries to prop up a teetering house of cards.

Castrol's lubricants group, this week completed its reverse takeover of Burmah Oil. This is not, of course, what happened technically, but it is not a bad layman's description.

Twenty-four years after Burmah bought Castrol from its founding family Burmah has finally made management changes and adopted a name reflecting the fact that Burmah is really just Castrol plus a few bits. Last year Castrol provided 67 per cent of Burmah's trading profit.

The changes, which put the stamp of Lawrence Urquhart, the incoming chairman, on the group, look tame. There is no reworking of company strategy. No grand expansion or contraction of the business. Yet the changes are the sort that

How Castrol is oiling Burmah's marketing wheels

can have a big impact on the way a company thinks about itself and how its managers work together.

The changes are twofold: a change of name and a unification of the group's central office structure aimed in part at eliminating the separate status of Castrol and intra-company rivalries.

The new name, Burmah Castrol, is aimed at retaining and combining the underlying strengths of both. Burmah Oil's original, and occasionally glorious, business as a small integrated oil company - Burmah owned the forerunner of BP when BP first discovered oil in

Persia - is finished, but the name has a history and a certain recognition, if not nostalgia.

"We did feel there was a historic residue of valuable property in the name Burmah," says Urquhart.

On the other hand, by taking on Castrol, Urquhart will increase investor recognition in the US. No longer will he have to introduce the company with a parenthetical apology: "By the way we're in the lubricants business; we own Castrol."

Castrol is the world's second largest lubricants merchant; its bigger, and possibly only serious global, competitor is Shell, by many mea-

sures the world's largest oil group.

Castrol is first and foremost a marketing company which has succeeded internationally not so much by dint of a single marketing strategy, but rather on the basis of quality management that has adapted strategy to individual countries, products, and industry sectors. Burmah believes it has continued to claim a larger share of a stagnant market for lubricants because its competitors are too busy with other, bigger parts of their own businesses.

The "Castrol is best" spirit which infused the company, however, did

not make for an easy integration with the Burmah group, even after Burmah's strategy had focused principally on adopting the ingenuity of Castrol marketing. "It may seem surprising, but 24 years after the acquisition of Castrol there is still a Castrol faction," Urquhart says.

The most important structural change is the merging of the Castrol and Burmah head offices, and the establishment of three international business groups: lubricants, chemicals, and fuels.

Jonathan Fry, the Castrol chief executive who became group managing director, says: "We've virtu-

ally got two worldwide head offices. We found they were tripping over each other." Urquhart, as chief executive, and Fry, as managing director, will share authority in a way that resembles the chief executive and chief operating officer relationship common in the US and recently adopted by BP. Urquhart will concentrate on the bigger picture, while Fry will manage day-to-day operations.

Urquhart described yesterday's moves as "slimming down for action." Burmah Castrol intends to grow by continuing to expand its lubricants market share in old and

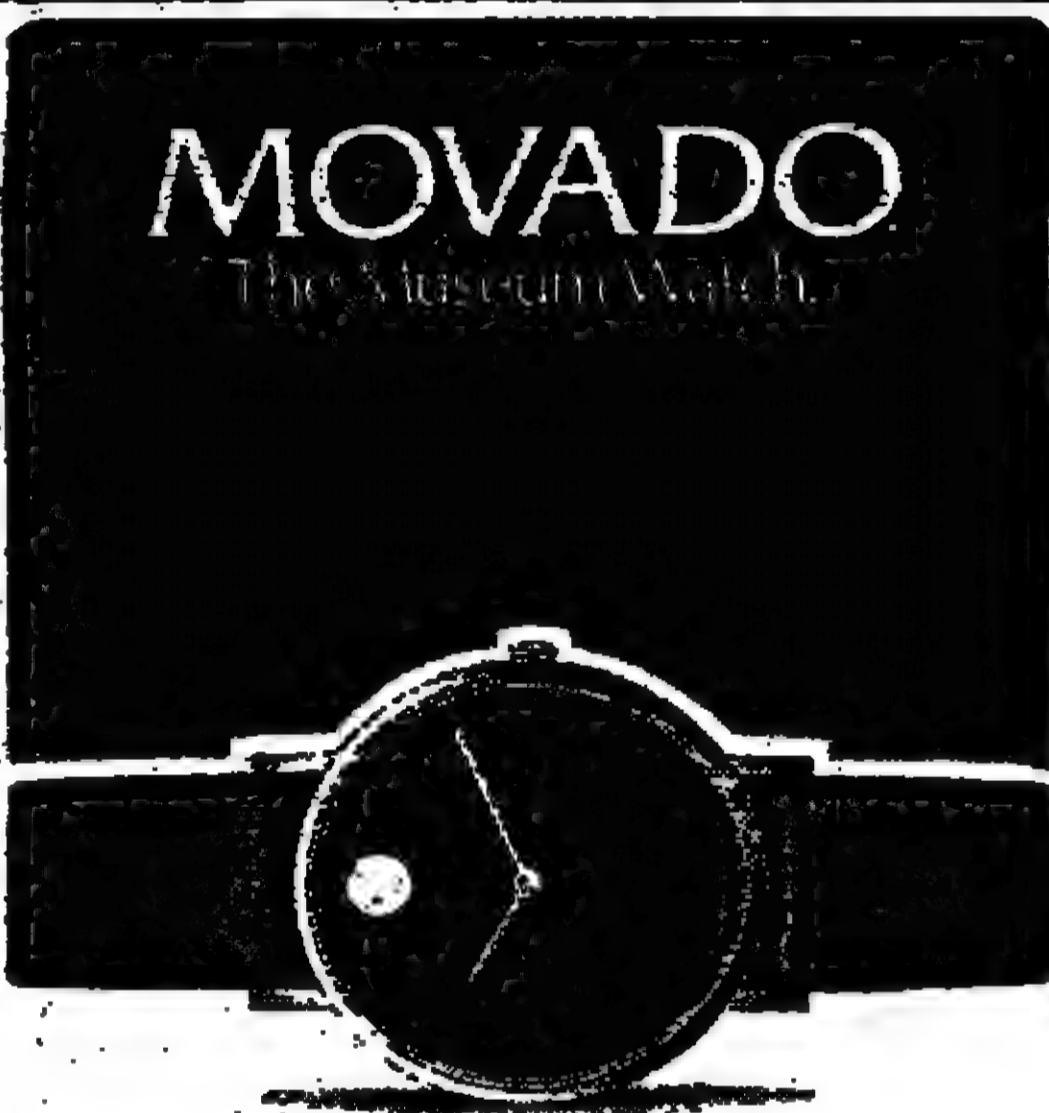
new markets, with the Eastern countries opening wide new vistas.

Burmah also hopes to find ways of pushing new products through the marketing networks in place, in the US, for example. "We have a management there who come right out of the toothpaste drawer," says Fry, speaking of the skill at mass marketing consumer products.

"If we are going to have a sensible chemicals group, it has to be bigger than it is," he says.

The aim of the restructuring is to eliminate a layer of management so that Burmah Castrol will be that much more flexible and responsive to the opportunities that arise. Says Fry: "This knits it together finally."

Steven Butler



The original. The Museum of Modern Art, New York, accepts 1959 the watch dial design in its permanent collection.

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PT FEB7

TECHNOLOGY

There was a time when the nail-biting, televised finals of the World Cup were threatened by fuzzy lines or "snow" drifting across the picture because a neighbour was catching up on repair work using an old-fashioned electric drill.

Although the drill makers have been persuaded to restrict this electro-magnetic "noise", many other equipment makers have not. Now political pressures are tightening the screw on the EC's electric and electronic equipment manufacturers and forcing them to restrict the amounts of electro-magnetic interference, or EMI, which emanates from their equipment.

New EC regulations, which should come into effect in January 1992, will affect products ranging from the most oily electrically powered industrial machines to the latest computer-controlled bathroom scale.

If manufacturers fail to comply with these electro-magnetic compatibility (EMC) standards they could face fines of thousands of pounds or even a spell in jail. For the business user the effects could be equally disastrous: if your computer or machinery does not comply to the standards then it could be closed down.

Although January 1992 marks the introduction of the new regime, no clear-cut standards for emission levels have been published. As a result manufacturers are being forced to guess about future EMI levels, knowing that they could back the wrong horse.

As John Chubb, manager of EMC laboratories in the UK, puts it: "Thousands of people - and I mean thousands of people - in hundreds of committees around the world are writing standards and we don't know which will be applicable. When you have 15 different standards to look at, how can you second guess?"

Many smaller companies, without the muscle or the bank balance of IBM, are simply hoping for the best. More are still barely aware of the new regulations says Digby Dyke, managing director of Charter Technology, of Worcester, the consultancy and design company.

"In a lot of cases people still haven't got a basic understanding of the problem or of what the EC directive is," says Dyke, "let alone the implications of it."

In a bid to have some kind of standard in place before the 1992 deadline, the European electro-technical standards

An urgent plea to stop interfering

Without clear EC standards, Della Bradshaw says restricting electro-magnetic 'noise' is a difficult task for manufacturers

body, Senelec, decided to publish a series of generic standards. The first two draft standards, published this month, cover domestic, commercial and light industrial equipment. They address the problem from both directions. One standard covers electro-magnetic emissions. The other covers immunity to emissions generated by neighbouring equipment (nowhere else in the world requires that machines be designed to be immune to interference).

Manufacturers and test houses alike are unhappy about the draft standards because they lack careful definition.

"If the computer on your desk crashes it is infuriating, but if that computer is controlling a set of railway signals..."

Many of the standard writers are living in cloud cuckoo land," fumes Stephen Kirk, managing director of Radio Frequency Investigation, of Basingstoke, which tests equipment for EMI. "The generic standard refers to future standards, draft standards from other international bodies and some standards which are still in the committee stages and won't be ready for years."

Although the political impetus for the directive has been the unified market in 1992 and the need to ensure that equipment meeting a single standard can be sold right across Europe, many manufacturers acknowledge that there is an

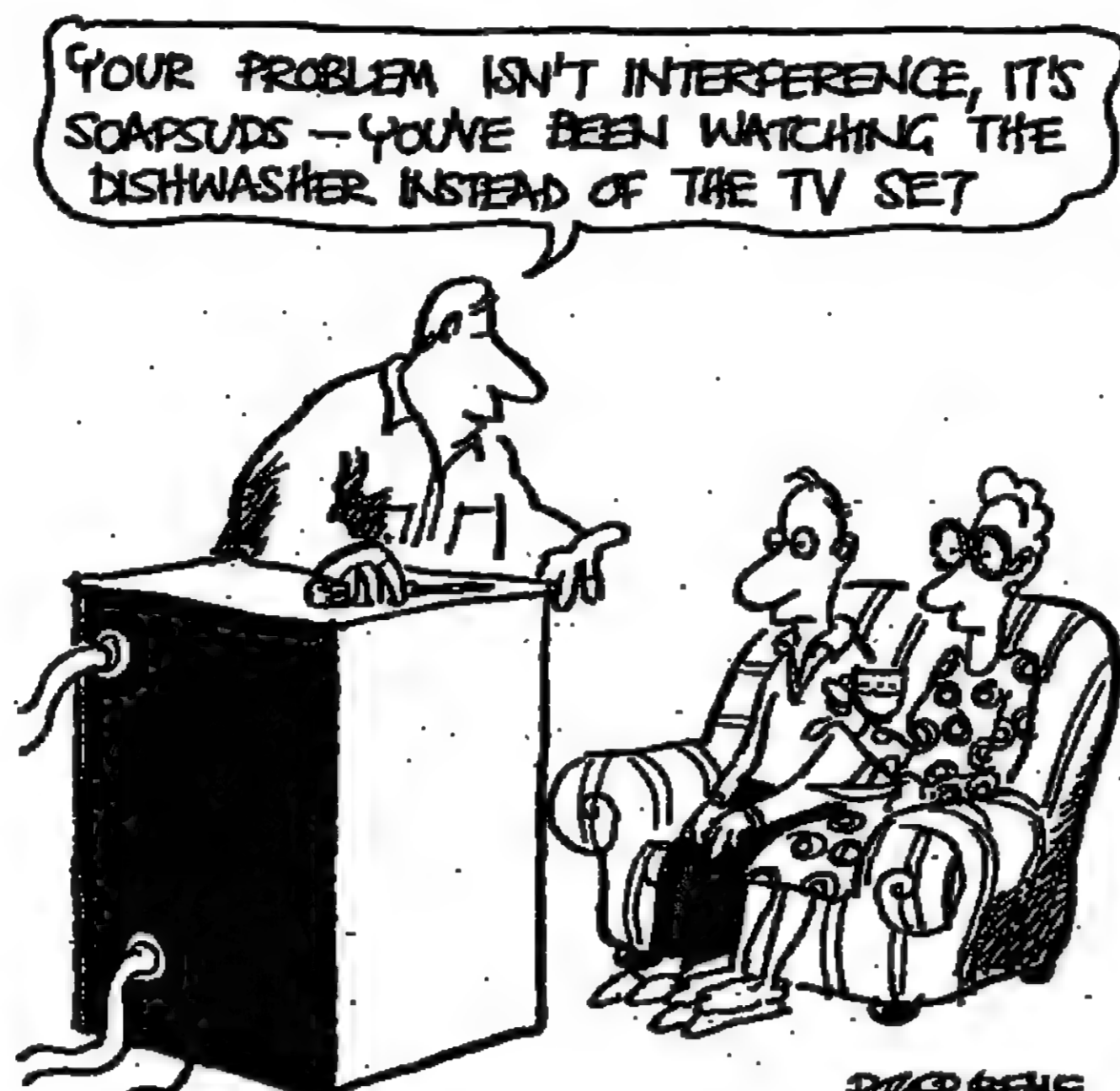
urgent need for such restrictions. The insatiable consumer demand for more electronic wifery, at home and in the office - car telephones, radiopagers, facsimile machines and PCs, to name but a few - is producing a veritable electro-magnetic fog.

While the interruption to a favourite television programme is annoying, EMI can have far more serious consequences. It is even reputed to have rendered sensitive military systems inoperative and caused satellites to fall out of the sky.

"If the stand-alone computer on your desk crashes it is infuriating," points out Kirk. "But if that computer is controlling a set of railway signals... well you can see the problems."

It was just such a problem which wreaked havoc for British Rail at Liverpool Street station in a period beginning at Easter 1989. First commuters from the City of London faced delays because of intermittent signal failure, a failure caused when the trains drew power from the overhead wires. Spurious electro-magnetic emissions leaked out, confusing the electronic signalling and making it shut down.

The challenge for equipment manufacturers is compounded because the restrictions will apply to all equipment brought into service in the EC after the January 1 1992 deadline - not just new products invented after the date. The manufacturer of the latest personal computer, mobile phone or domestic washing machine, for example, already has those products on the drawing board - if not in the shops. For heavy equipment makers, with longer development cycles, the



problems are manifestly greater.

The good news, says Kirk, is that equipment makers are now turning to test companies for help during the design phase of the product. Tackling the problem at the design stage is the only real solution, says Chubb. "If you build it first and then try and fix it, it is very expensive indeed."

For multinational companies such as IBM, EMC and EMI are more than European buzzwords. Because their products have been designed for the international marketplace, they all comply with the strictest regulations, such as in West Germany and the US.

Companies without the resources to dedicate teams of people to the job should not be disheartened, says Kirk. "We recommend that one person within the company should be given the responsibility of implementing the directive. Either someone should be identified for special training, or someone should be recruited specifically to do the job."

One such person is Darren Owen, electronics engineer at Four Square Drinks, part of the Mars group, which makes drink dispensing machines. "EMC is a critical design criteria, just as safety is," says Owen. "You have to keep mentioning it, and keep trying to get it into the design strategy."

This will be particularly important because most of the impending legislation will be based on self-certification, with companies certifying that their products comply with the regu-

lations.

Some of the biggest problems of electro-magnetic waves - moving electrical charges invariably produce magnetic forces, and vice versa - come with the ubiquitous microprocessor, says Kirk. Because the digital signal is a square-wave "on" or "off" signal it takes up more bandwidth than the older analogue signals. As a result there is more potential for interference to leak out.

The design challenge is to map out the microprocessors and the linking circuitry on the circuit boards in such a way that they do not interfere with each other. Shielding materials are a second tool, used particularly on cabling.

Even then the problems are not over. "A good digital engineer may design a printed circuit board in such a way that it may not, in itself, cause emission problems," says Dyke. "But when it is configured into a system, that system may be a problem. Cables can often act like antennae and radiate or become susceptible to emissions."

Although 1992 is approaching rapidly, manufacturers and test houses believe it is unlikely that legislative chaos will ensue. Instead they think it will take two or three years for the policing activities to match the vigour of those in, say, the US.

There, computer makers live in trepidation of FCC inspectors swooping down at trade fairs and scooping up armfuls of computer hardware which fail the stringent regulations.

Update on ozone friendly coolants

AS political pressure to eliminate the use of ozone-depleting chemicals in refrigerators and air conditioning systems continues to grow, a clutch of announcements have been made around the world, all eager to jump on the "green" bandwagon.

Sanjo Electric, the Japanese domestic appliance maker, is developing a refrigeration system that does away with chlorofluorocarbons (CFCs) by replacing them with hydrogen.

In today's domestic refrigerators, the CFC-based coolant absorbs heat from the food in the refrigerator, which causes it to boil (at just a few degrees centigrade) and turn into gas. As the gas is compressed, in a compressor, the temperature is pushed up. That heat is dissipated into the kitchen and the gas then expanded again. This cools it to a very low temperature so the cycle can be repeated.

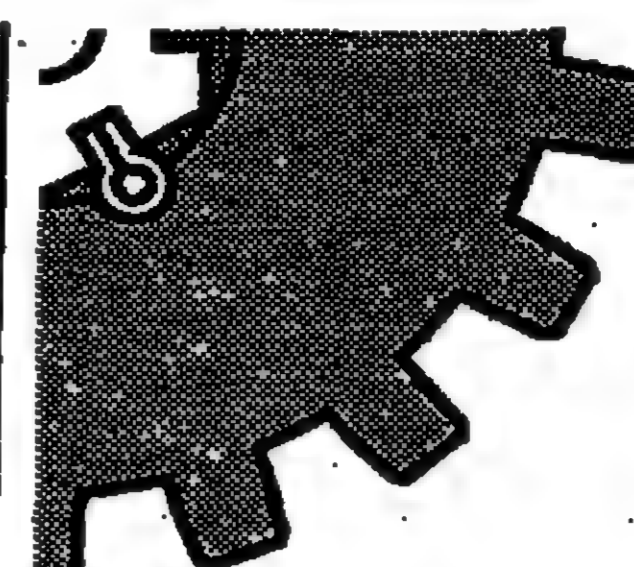
The Sanjo design uses a hydrogen-absorbing alloy. It has no compressor. In the presence of hydrogen under pressure the alloy absorbs hydrogen and gives off heat. When the pressure is lowered, it releases hydrogen and absorbs heat. So by applying heat to the alloy it can be used to keep food cold.

Electrolux, the European refrigerator maker, has begun selling a compressor which works on a refrigerant, HFC-134A, which does not harm the ozone layer.

The compressor will be used in Electrolux's own brands, such as Zanussi, as well as being sold to other fridge makers. The Swiss company Hermann Forster, of Arbon, is already using the compressor in its prototype. Domestic fridges containing the new compressor are expected to reach the shops next year.

The key to the Electrolux's new compressor was the successful development of a synthetic "ester oil" to replace the mineral oils which lubricate CFC-based compressors but are incompatible with HFC-134A. Electrolux says its ester oil is biodegradable in the environment.

At the industrial air conditioning end of the market York International, the refrigeration specialist, is using a replacement chemical, HCFC-123, developed with Du Pont, the



WORTH WATCHING

by Della Bradshaw

International chemicals company, York says it has only 2 per cent of the ozone depleting potential of a CFC.

The first implementation in the UK of an air conditioning system using the new chemicals is in London's Broadgate centre.

Plastic bottle keeps it fresh

KEEPING sauces, beer or baby food fresh usually involves storing it in a glass rather than a plastic bottle, as most plastics allow oxygen to seep slowly through from the air into the food or drink, allowing bacteria to grow.

But Alcoa Coating Technology, a US division of the BOC Group, has developed a coating which reduces the rate at which oxygen seeps through a plastic bottle by more than 70 per cent.

The quartz-like coating, known as QLF, is less than 12 millionths of an inch thick. It is applied to the outside of plastic containers and flexible polyester film packaging using a plasma vapour deposition technique.

The transparent silicon-based coating only slightly increases the cost of plastic containers made of polyester terephthalate (PET), says BOC. In addition, QLF-coated bottles can be recycled without any special treatment.

The technology will be marketed worldwide by Eastpac, a joint venture between the Eastman Chemical Company and BOC.

Identification at your fingertips

DNA fingerprinting makes it possible to identify individuals according to their genes, writes Clive Cookson. Applications of the tech-

nique for medical, scientific, legal and forensic purposes are expanding rapidly, but a growing problem is the shortage of experts who can assess how well two fingerprints match - and differences in opinion between experts are leading to costly legal disputes.

PA Consulting's Cambridge Laboratory has developed a new genetic fingerprinting process which could help solve these problems. It uses an image processing computer to enhance and match up the pattern of bands (which can look like a very dirty and smudged bar code in a supermarket).

The key algorithms (mathematical programs) for the process have been drawn from PA's industrial automation work. Algorithms originally devised for inspecting food products were adapted for the enhancement stage and algorithms for speech recognition form the basis of the matching and recognition stage. The process can work either with existing "DNA probes" or with a new "probe-less" genetic test invented by William Bates of PA's Biotechnology Group.

Doubling up on video recorders

FOR people for whom a single videorecorder and two satellite television companies are simply not enough, Amstrad, the UK consumer electronics manufacturer, has developed a double-decker videorecorder.

The Double Decker, which will be on sale in Europe from the autumn at a cost of £399.99, will enable squashed viewers to watch one recorded programme while recording another.

Other uses are for particularly long programmes - one tape will follow on from the other, allowing up to 16 hours of playback time - and for those with the latest miniature video cameras. Because they record on to the smaller 8mm video tapes, rather than VHS ones, the camera itself has to be plugged into the videorecorder in order to view the tape. With the Amstrad system, the pictures on the 8mm could be re-recorded on to a VHS tape.

Contact: Sanjo, Japan, 06 691 1161; Electrolux Italy, 0434 382222; York International, US, 717 771 1946; UK, 0208 271678; Eastpac, (BOC) UK, 0276 77222 ext. 2942; PA, UK, 0783 261222; Amstrad, UK, 0277 226694.

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2 & 3 October - Birmingham

FT-City Course
8 October - 26 November - London

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15 & 16 October - London

Financial Times/Price Waterhouse Capital Markets Workshops
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21, 22 & 23 November
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FINANCIAL TIMES

ARTS

TELEVISION

Opinion pieces

Some pretty odd things are happening to BBC journalism. Throughout its life, starting in the earliest days of radio, the BBC stood for the ideal of even-handedness. No one journalist ever believed that wholly objective journalism was possible so long as it was practised by fallible, emotional human beings, and anyway the very business of choosing one subject and rejecting another, or selecting one news item at the cost of another, is itself a subjective process. The important difference is between those who accept this yet try to get as close as possible to the ideal of objectivity, and those who do not. The BBC was always among those who did.

Now, however, influenced perhaps by the *Opinion and Comment* slots on Channel 4, the BBC is beginning to broadcast various sorts of one-sided journalism but, whereas Channel 4 has always been very careful to label its opinion pieces as such, the BBC is far more lax. This is particularly odd and worrying when it represents a radical departure from the habits and principles of 60 or 70 years. The minority who carefully read billings in *Radio Times* (now more clearly laid out than ever before, but abandoning more and more production credits) will know that the BBC considers the series *Where On Earth Are We Going?* to be "six personal views by Jonathan Porritt".

It is a moot point whether anyone else will realise this is the idea, yet during the opening programme no viewer could miss the fact that this was polemic rather than even-handed reporting. Phrases such as "we should..." "we must..." littered Porritt's script (as did the assertions that we are "literally addicted" to fossil fuels, and enveloped in "smog", perhaps Porritt is too young to remember smog). It is interesting that the person given six chances to air his opinions happens to promote precisely the sort of green policies which were preached so enthusiastically throughout the BBC's so-called "One World Week" in May. When does the BBC intend to give equal time to other political attitudes on the environment - or have they decided that on this as on AIDS they will simply proselytise one questionable point of view?

Having started out merely grubby, the BBC's policy on AIDS is steadily turning into something more shameful. In the programme made by award-winning producer Fisher Dike, with an eye to the way in which AIDS has been most commonly passed on in the US and the UK this programme seeks to explain in a straightforward way just what it is that some homosexuals do. It was shelved in March 1986 and has never been broadcast. Now the BBC is showing programmes which set out deliberately to worry the heterosexual major-

ity even though the producers know perfectly well what the true figures are - or presumably they do. Either Anna Jackson, producer of BBC's *Facing Up To AIDS*, knew the statistics and chose to withhold them, or she did not know them in which case, or wonder why she is allowed to make such programmes. Her final claim was this: "You can become infected with HIV through vaginal sex. The number of people in the UK known to be infected through heterosexual intercourse nearly doubled during 1989." Quite so. But why did she so carefully avoid giving actual figures? Could it be because viewers would then have looked with incredulity on her decision to feature only infected heterosexuals in her programme?

Up to the end of January 1990 the number of people in Britain with AIDS was 3021. Bearing in mind Anna Jackson's decision to choose only heterosexuals to illustrate this problem, guess how many of those cases involved infection by heterosexual intercourse without other risk factors (bisexuality, drug abuse, etc): 2000 perhaps? Or 1500 at any rate? The answer is 15. The figure for homosexuals is 2433. These figures do not mean there is no risk to heterosexuals, nor does it prove beyond doubt that there will be no epidemic among the general population. But once viewers have been given those figures they are likely to see BBC scare programmes in a very different light. The nannyish decision to exclude such figures says much about the current standards of BBC journalism.

There is another policy matter this week on which we should stand up for the BBC: the decision to show the *World Cup* semi-finals whatever ITV might do. Put yourself in the BBC's position. From the earliest days of British commercial television, experience has proved that, given the choice of watching the same sporting event on BBC and ITV, more people always choose to watch the BBC. This may indicate a deeply atavistic instinct to turn to Auntie on big occasions or, as I suspect, a wish to avoid the interruption of commercials. Either way, the BBC knows that more people want to see the football on their channel than on ITV. (They also know, incidentally, that more viewers will be attracted to the *World Cup* than to anything else they might show.) Why, then, should the BBC meekly hand its most valuable asset to ITV? True, the unfortunate outcome is hour after hour of identical pictures from the Italian state broadcaster, RAI, on BBC1 and ITV, but that still leaves BBC2 and C4, not to mention unteamed channels on Sky and BS2.

Among television critics there is a powerful tradition of smashing to smithereens the nervously jealous assertion made by television practitioners (as by



"Where on earth are we going?": Jonathan Porritt's view

theatre people of drama critics, and film directors of cinema critics) that critics are merely applying practitioners who never made it. When you look at the ranks of former television critics, ranging from the most to the least serious - Dennis Potter, Bernard Levin, Philip Purser, Herbie Kretzmer (former *Daily Mail* television critic, now a rich man after writing the lyrics for *Les Misérables*) Barry Norman, Clive James, Nina Myskow - you realise the absurdity of the claim. Now Mark Lawson, television critic of the *Independent On Sunday* has joined the ranks. His report on the mid-Staffs by-election was not the best *Byline* documentary we have seen (unsurprisingly when you remember that Alan Bennett was an early contributor) but he made a better presenter than half of the supposedly professional presenters that you see on the screen these days. Even if he did say "really" like William Brown.

There were some quite good lines in Episode 1 of *The Gravy Train*, Malcolm Bradbury's four-part comedy about EC bureaucrats in Brussels. Upon being told that the central Candide figure, Hans, had previously worked in the literary section of Unesco, sending Nietzsche to the third world, Spearpoint, a ravenously ambitious pen pusher, played as usual by Ian Richardson with seeming effortlessness,

remarked that God had surely said Nietzsche was dead. The trouble is that the central situation - the wide-eyed idealist surrounded by free-loading cynics and seductive women - is so reminiscent of David Lodge's *Small World* that it is hard not to keep comparing this new work... to its detriment. Perhaps tonight's episode (10.00 C4) will begin to look more original.

However, if your main aim is to laugh you are probably better off waiting till tomorrow night and catching *Waiting For God*, a sitcom written by Michael Aitkens (a new name to me) in which the endlessly watchable Graham Crowden plays Tom, a bohemian new arrival at an old people's home. It is significant that the home is not an NHS outfit but the fee paying type, so instead of all the familiar jokes about time serving civil servants and rule-riddled institutions, we have a far more Thatcherite style of comedy. When asked by one of those patronising "careers" (Janine Davick) a superb bit of casting) "Have we had a little twinkle today or are we going to have to join the rubber sheet club?" Diana (Stephanie Cole) behaves like a customer and responds with blistering sarcasm. And when Tom goes to complain to the warden about the food he barks "Sit! This is not a discussion!"

Christopher Dunkley

'Figaro' put in the front line position

The demythologising of Mozart continues. It is more than ever necessary to reassess the man, to be sure, but as Volkmar Braunbehrens says, with little exaggeration, "not a little word, scene, or location, to say nothing of the behaviour and appearance displayed by the film's characters, has anything at all to do with historical reality."

It is this historical reality that he sets out to investigate, setting aside the accretions of tradition over 190 years of biographical studies, many of them written in a spirit of rosy adulation. He begins by untangling some of the facts surrounding Mozart's departure from the Salzburg Prince-Archbishop's service. Did he jump or was he pushed? The only evidence we have is Mozart's own, from his letters to his father, and Braunbehrens takes a hard critical look at Mozart's

self-justifications. He examines the social set-up in Vienna and the sources of patronage Mozart tried to tap. He goes into the history and standing of Freemasonry there during the 1780s, and this gives him a basis for some interesting new conclusions about Mozart's relationship to it during his last years.

Most important of all is his examination of Josephine reform - Joseph II's reign coincides almost exactly with Mozart's Viennese years - and its reception. The conservative Viennese did not much like it; even its beneficiaries in the middle and lower social orders were not too keen, it seems, since Joseph was an extraordinarily despotic reformer, passing through his own will and often eccentric ideas without regard for whether they were wanted. When he died, at the beginning of 1790, he was virtually unmissed.

Braunbehrens re-examines

MOZART IN VIENNA, 1781-1791
by Volkmar Braunbehrens
Andre Deutsch £17.95, 481 pages

at some length the matter of Mozart's alleged poverty. Everyone knows that Mozart had to borrow; but he was never poor in the sense that he or his wife was short of food or clothing - or even servants. Braunbehrens makes it clear that there are large areas we know nothing about, including for example what may well be some business speculation during his last years. But he always had a large income, very large compared with other musicians. Historical economics is, however, treacherous territory for the non-specialist - if only because the cost of living is so hazy a concept in a society with heavy social

demarcations - and Braunbehrens's conclusions lack the sophistication of the diagnoses by other writers, are sometimes suspect. A recent Royal Musical Association paper here (by Julia Moore) is far more precise and searching.

His ignorance of the English-language literature leads Braunbehrens into thinking that many of his ideas are newer than they actually are. He is not in fact abreast of Mozart studies of the last couple of decades and often trips up over facts, notably composition dates. Nor is he persuasive on the actual music, though he does have some perceptive or at any rate original things to say about the Salzburg *Wolferl* and *Die Zauberflöte*, there are fascinating new ideas about character and motivation - some of them akin to those in the recent Peter Sellers Glyndebourne production, and just about as close to

Mozart.

But his knowledge of the Viennese Josephine context for the operas does give rise to some worthwhile, or at least provocative, thoughts. Some may feel he is too apt to politicise. *Figaro* is in the "frontline position in defense of Josephine policy," he reckons, and he believes that Joseph actually encouraged it for its attitude to the aristocracy - further, that the aristocracy themselves boycotted it.

The additional implication is that Mozart is far more political creature than we have assumed. This may be so, though scarcely a whiff of it escapes in his letters. Braunbehrens may, I think, often be wrong; but he does compel us to face questions that Mozartians have rarely asked before, and that is all to the good.

Stanley Sadie

The Kirov's Balanchine

COLISEUM

The Kirov Ballet is giving only three London performances - the first was on Monday night - of one of the most significant programmes it has ever presented in the West. The significance lies in the aesthetic and political implications of a triple bill which comprises two Balanchine ballets, and Oleg Vinogradov's adaptation of Stravinsky's *Petrushka* as a response to the aesthetics of glasnost. By acquiring Balanchine choreography the Kirov lays claim to a genius who left the troupe and school which formed him when he was 30 years old. Argument can rage about the "Russian-ness" of Balanchine's work, which was in essence a staggering New World development, during half a century, of what his Petrograd schooling had given him. The Kirov may see him as a native son (whose art would surely have atrophied under Stalinist aesthetics) America knows him as creator of a 20th century classicism that is still far in advance of dance creativity elsewhere, and out of sight of anything similar in Russia.

How the Kirov deals with Balanchine is, then, a matter of real interest. That the company should open itself to the example of his greatness is admirable, and must surely be a continuing process. That Kirov academism and New York City Ballet classicism are vastly different - the contrast fascinatingly pointed in last year's *Hall of Mirrors* appearance by the schools of both troupes - merely restates a problem known to any ensemble which borrows from the Balanchine treasury. Speed,

musical acuity, rigour in execution, mark NYCB's style. By contrast, the Kirov offers aristocracy, a formal dignity, an exquisite variety of lightness and shifts in line and contraposto.

Balanchine's *Scottish Symphony* and *Theme and Variations* are well chosen by the Kirov. The first is a tribute to the Highlands, from *La Sylphide* to *Les Sylphes*, and on Monday it was excellently done. A pretty set and costumes, Yelena Pavlova divinely light as the sylph appearing to Yevgeny Nefz's young Laird, and Irina Chistyakova so fast and sure as the other female soloist, were part of a staging that looked both Kirovian and Balanchinian: not a compromise but an accord. *Theme and Variations*, which Balanchine made in homage to the world of the Kirov/Martinsky Theatre, came off slightly less well. As polished over the years by NYCB performance, it has such clarity of utterance that the more opulent (and slower-footed) Kirov manner loses something of the rhythmic spring of the dances. There are, even so, real merits to the Leningrad view (and a stunning set showing the interior of the Kirov Theatre): the dance looks luscious in outline through variety of *epaulement*, and dignified. Larissa Lezhnina and Kirill Melnikov were youthfully daring in roles that still ring with the authority of Albinus and Igor. Vasilyev's *Les Sylphes* dancers. And, of course, an additional virtue of the Balanchine acquisitions is that they reveal the values of a true modern

classical style to dancers whose previous repertory experiences have included the debased manner of Maurice Béjart.

Béjart's presence is to be felt in Oleg Vinogradov's *Petrushka*, which ends this programme. Originally staged last year for Scottish Ballet, it must first be understood as a Soviet artist's response to the vast changes taking place within his society. And by understanding the extreme tensions of this political situation one may, perhaps, excuse the sheer awfulness of the ballet. The Fokine/Stravinsky/Benois *Petrushka* was the perfect masterpiece of the Diaghilev Ballet, music indivisible from choreography, dance unthinkable without decor, each element an extension of its companions. Vinogradov's expressionistic romp has to do with *Petrushka* as spirit of an oppressed and ultimately triumphant populace, I expect. It offers the agonising and scampings I associate with his choreographic process, plus the gimcrack philosophising (and the cuteness) that is part of Béjart's stock in trade. But the constant denial of Stravinsky's score - so explicit in drama and pictorial effects - and the blatancy of creative means make it insufferable. Andris Liepa was cast as *Petrushka* and gave of his all. The Kirov is, in many aspects of its repertory, a glorious museum of Russian Ballet: it owes a debt to Mikhail Fokine to acquire the real *Petrushka* as amends for this staging.

Clement Crisp

Operas in St Louis

A visit to St Louis for what is in effect not in name its summer opera festival provides annual and unfailing pleasure. The performances are always lively, fresh, committed. There are new young singers to hear. Ashley Futnam, Jerry Hadley, Diana Upshaw, Vinson Cole, Thomas Hampson, Sylvia McNair are among those now famous who made early St Louis appearances. The operas play in a small theatre set amid lawns and trees. By day there is the handsome city itself to explore and enjoy, with its noble park, fine botanical gardens, excellent art museum, famous zoo, and seemingly inexhaustible richness and variety of architecture (including buildings by Louis Sullivan and H.H. Richardson).

The *Symphony* plays in a 1926 movie palace, Versailles-inspired. (The city, named for Louis IX, was founded under Louis XV.) Civic enterprise is a worthy quarter for the liveliness and splendour. Each year there are old favourites to revisit and new things to see. On my list for next year are a Noguera ceiling in the U-Haul Moving Center, the Cherokee Cave beneath a brewery now become a shoe factory, a dozen churches, and modern Cahokia.

My extra curricular discovery this year was old Cahokia, a former Indian city across the Mississippi from St Louis which flourished from 900 to 1400 A.D. The place today is a vast park, romantic and beautiful, studded with grassy mounds. As an ancient the largest of them - an earthwork of the Sandhills, a massive pyramid - modern St Louis, with Sarrin's Arch and the later skyscrapers, becomes visible in the distance.

The Opera Theatre repertory this year was *Peter Grimes*, Dvorak's *The Devil and Kate*,

Donizetti's Daughter of the Regiment, and *Figaro*. The Dvorak is an opera of considerable lyrical charm but, like Rameau's *Plafie*, it has modern problems: the heroine is so fat, unattractive, and garrulous that even the Devil can be persuaded to renounce his designs by the threat of having Kate as his companion in hell. A London University production, many years ago, was tactful and charming. The spirited St Louis production, staged by Francesca Zambello and conducted by Richard Buckley, hit the work so hard, so rowdily, so shoutily, that one felt more battered than charmed.

Peter Grimes, produced by Colin Graham, was also over the top. Martin Thompson played Grimes from the start as a dangerous, violent lunatic. He sang accurately and strongly. Ellen Orford's inaccuracy as his possible saviour was stressed in Christine Brewer's performance by a steely quality in her voice - very different from Joan Cross's warm, tender tones - when it rose. Kenneth Kiesler, conducting, tended to push things a little too hard. Some of the Sea Interludes were mimed: in "Storm," Grimes was pursued by swirling furies, a vision of Ellen appeared at the "What harbour shelters peace" scene, and then the dead boy rose up between him and her; "Sunday morning" was a procession to church animated by little "cameo" performances. Modern producers are reluctant to let a composer set the mood and paint a scene, to let an audience listen.

Nevertheless, the opera made a great impression. The faults were those of passionate over-enthusiasm and over-emphasis. It was exciting to hear the work again in a small house, with orchestral and choral forces close to those of Sadler's Wells in 1945. Good perfor-

mances from Laura Brooks Rice (Mrs Sedley), Harlan Foss (Balstrode), Matthew Lord (Boles), and Richard Rehlis (Ned Keene).

The Donizetti was prettily done. It was attractively set, by Richard Isacker, in a late-19th century Tyrolean valley traversed by a toy train. Tracy Dahl was a hoydenish heroine, without the dainty charm for which Jenny Lind and Patti were celebrated, but her spunky high spirits and fleet, confident (if at times strident) coloratura carried the day. Stanford Olsen, a Met Mozart and Rossini tenor, was a vocally polished Tonio. He used words well. He was never needlessly loud. He is a pleasing artist, a potential world star, but should lose weight if he can do so without losing voice. Elaine Bonazzi, a witty performer, was entertaining as the Marquise (a role created for Donizetti by Nadia Boulanger's grandmother). Stephen Lord's conducting was more energetic than graceful.

Figaro was sung (largely) in my English translation, which need not, however, stop me from praising Thomas Lynch's finely proportioned, admirable sets. Stephen Wadsworth's production was nicely serious until Act 4 went out of control and, contending, perforce, was greeted with laughter. Rebecca Abrams, the Susanna, was enchanting of presence but vocally untidy and inaccurate; if her voice, which is of pleasing natural quality, can be schooled she should go far.

Reservations, then, about all four shows. But not a moment of boredom. No trace of the routine that dulls so much American opera. Next year's St Louis shows are *Eugene Onegin*, Mozart's *Mitridate*, *Ariadne auf Naxos*, and the *Leoncavallo Bohème*.

Andrew Porter

ARTS GUIDE

THEATRE
London

Anything Goes (Prince Edward). Cole Porter's silly ocean-going 1930s musical has five marvelous songs and a hilarious Paige falling to emulate Ethel Merman (Louise Gold takes over on July 2). Jerry Zak's desperately funny production comes from the Lincoln Center in New York and is undemanding fare (734 9551, cc 336 2429).

Jeffrey Bernard is Unwell (Apollo). Tom Court is the alcoholic journalist who embodies a Falstaffian, hay-making life force while committing public suicide by vodka. Keith Waterhouse has written a fine play, the season's highlight, from Bernard's own writing. Ned Sherrin directs (437 2683).

Aspects of Love (Prince of Wales). Andrew Lloyd Webber's latest is an intimate chamber opera derived from David Garnett's 1955 novella. Musically interesting and well directed by Trevor Nunn, a cast of unknowns project the right sense of sybaritic innocence. A probable, but unspectacular, hit (539 5972).

Shadowlands (Queen's). Four-figure weepie about the love affair between crusty Oxford writer C.S. Lewis and the cancer-ridden American poet Joy Kilgus, which pushes both Nigel Hawthorne and Jane Lapotnik into the awards stakes. William Nicholson's play is irresistibly emotional. Shijah Moshinsky's direction is superb (734 1166/428 3549).

Henry IV (Wyndham's). Pirandello's cat's cradle of fantasy

and reality, identity and time in a production by Val May the sobriety of which belies its pre-production hijinks. Sarah Miles left the cast, but Richard Harris stayed to give a star performance in a elegantly but somewhat random setting (246 0102).

New York
Cat on a Hot Tin Roof (Eugene O'Neill). Kathleen Turner, whose statuesque good looks embody Tennessee Williams' vibrant character Maggie, is surrounded by an excellent supporting cast in Howard Davies' production. Grapes of Wrath (Cort). The Steppenwolf company's interpretation of the Steinbeck epic novel has taken a long time to reach New York from Chicago; the wait was worth it, with the 1930s brought alive in its squalor as well as its test of human strength. Gary Sinise as Tom stands out in Frank Galati's adaptation.

Belli Chronicles (Plymouth). Wendy Wasserstein's award-winning drama covering 20 years in the life of a successful American baby boomer goes from support for Eugene McCarthy's presidential aspirations to electoral ambitions in the 1980s, accompanied by the musical and emotional flavour of the period (239 6200).

Gypsy (St James). This 30th anniversary production does more than revive a rich, vivid musical; it also introduces a new belter in the Merman tradition, Tyne Daly, as the bossy, ruthless and tenuous Rose, who shamelessly leads her daughter into burlesque while rejecting a personal life for herself (246 0102).

Grand Hotel (Martin Beck). Tommorrow's Broadway's recent musical doctor, directs this remake of the Garbo film to at least shake the bones of this last season's *Grand Hotel* from under the dryers in a busy hairdressing establishment (689 9000).

The Gospel at Colonus (Goodman). The season concludes with the even more spectacular and spirited version of Sophocles, set in an Afro-American Pentecostal church. (443 3800).

Washington
Starlight Express. Andrew Lloyd Webber's roller-skating musical slides into Washington on its national tour. Ends July 14. Kennedy Center Opera House.

Chicago

Steel Magnolias (Royal George). Ann Francis and Marcia Rodd play the leads in this view of Southern life from under the dryers in a busy hairdressing establishment (689 9000).

South Pacific. Emile Belcourt and Gemma Craven lead the cast from the recent London revival of the Rodgers and Hammerstein musical. Rosemead Hall (587 5444).

Kabuki. Kabuki (541 5121). The matinee at 11am is a mixed programme that includes a spectacular lion dance, while the 4.30pm performance consists of the even more spectacular full-length play, *Tenguji Tokubei*, featuring magic and mayhem with kabuki superstar Ennosuke, master of the quick-change routine. Excellent earphone guide in English and English-Japanese programme. Moonville, the National Theatre (265 7411) has a "kabuki classroom" that consists of a lecture demonstration (with earphone translation into English) followed by a performance of *Kozu no Eie* (The Fox Princess) - an excellent introduction to kabuki.

Noh. Atsumori, a play written by the 14th century noh master, Zenshi, preceded by a kyogen comic interlude. With explanation (in Japanese only). National Theatre. (Wed at 1pm) (433 1411).

SALEROOM

Top price for tapestry

A fragment of a tapestry woven near Basel in the 1430s and depicting a startled looking young man and woman in court dress sold for £258,000 at Christie's yesterday to the Swiss dealer Peter Kleiner. The tapestry will return to the museum in the canton of Aargau where it was woven over half a millennium ago. The price was an auction record for a tapestry.

During the 1430s Basel was home to a great religious Council which tried to sort out the problems of the Church. The delegates were most impressed by the wealth of the local burghers and their magnificent tapestries. This example was in the Benedictine Abbey at Muri until 1840 and then descended through the Vischer family. Tapestries of this date are very rare. Another fragment from the same series made 595,000 to Rubin, the New York dealer, but a third of works of art, which totalled £1.4m with 15 per cent unsold, the London dealer Johanna Barnes paid £208,000 for a Florentine bronze group of the 17th century depicting Diana discovered by Pan.

The Old Master drawings sale at Christie's was a great success, totalling £2.5m and with only 3 per cent unsold. The star lot, a watercolour by Hans Hoffmann, the 16th century German artist, showing

two squirrels wrestling with a hazelnut, sold to Leggett for £258,000, a record for the artist. For a long time the sketch had been attributed to Durer.

Two drawings by Jacques one of a little boy, the other study for the famous portrait of Madame Maitessier, went for £143,000 and £132,000 respectively, and the only known extant cartoon by the 17th century Italian artist Mola doubled its estimate at 552,000. Philippe is selling the contents of Knockdown in Argyll, and yesterday had one of those rare experiences when a lot estimated at around 2400 sold for 559,400. It was a Victorian album of views, including seven of Trinidad at Cazanob, the only celebrated local artist of the period. They were bought by a local Port-of-Spain dealer, Mark Pereira. Among Phillips Old Masters in London, a Venetian view by Marten de Vos, a Canaletto's forerunner, sold for £133,000, way above estimate, another by the same artist also did well at £126,000. Sotheby's was disposing of a good collection of arms and armour assembled over the last 30 years by Henk Visser. The first part brought in over £1m with 14 per cent unsold. Montgomerie, the Californian dealer, paid £67,100 for a rare 1500 Alsatian double barrelled over and under wheel lock pistol.

Antony Thornicroft

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WEDNESDAY JULY 4 1990

Priorities at the summit

THE leaders of the Group of Seven richest industrial countries have a unique opportunity to break the deadlock over world reform at their summit meeting in Houston next week. They cannot afford to fudge it. Otherwise the Uruguay Round of multilateral trade negotiations, which is already faltering, may slide towards failure.

President Bush has made the Uruguay Round a priority item on the summit agenda. He hopes for agreement on farm reform because it is now clear that the Round cannot succeed without progress on reducing aid to farmers which costs taxpayers and consumers in the industrial world the equivalent of \$240bn a year. Such is the political sensitivity of this issue in Europe that courageous decisions are required from heads of government.

A successful Round is needed more than ever to secure the future of the trading system on which the prosperity of the free world depends. Within grasp is a prize which should rightfully crown the triumph of western democracy and market orientation over the moribund planned economies of eastern Europe. Yet it can only be won if the leaders of the free world are prepared to override the sectional interests of their farm lobbies for the sake of the greater good of the system as a whole.

The world will be looking for a signal from Houston. All must change their ways, but in the light of his country's pivotal role in the European Community, special responsibility resides with Mr Helmut Kohl, West Germany's Chancellor. His Bavarian farmers are among the most truculent in their refusal to accept reform. Yet Mr Kohl has received noteworthy support from the US for German unity. He should now ponder, in return, the kind of world into which the German nation will be reborn, as well as the kind of leadership role it should be expected to undertake in Europe.

Regional stability

Germany's export success has not only made it one of the major beneficiaries of the multilateral trading system that has existed for over 40 years, Germany has also been one of its strongest rhetorical supporters. Moreover, it has much at stake in the political and economic transformation of eastern Europe as a whole. The task of attaining regional stability will be made all the harder in a world threatened by protectionism, commercial and economic decline. It will be easier if farm-producing countries like Poland and Hungary have free access to export markets for their products.

The best option for the summiters would be to endorse as a viable framework for negotiation the latest proposals by Mr Andrius Zeeuw, the Dutch chairman of the Uruguay Round farm negotiating committee.

Essential elements

The de Zeeuw paper sets out the essential elements of a reform package which could be negotiated between now and the climax of the Round in December. These include ways of dealing with domestic support which would be reduced and uncoupled from production, and import barriers which would be converted into tariff equivalents. But, to European eyes, the most contentious part is the suggestion that export subsidies should be "reduced effectively more than other forms of support and protection."

This follows fairly closely the aspirations of the US and the Cairns Group of independent farm exporters. Europe has been fighting a rearguard action to avoid singling out export subsidies. The de Zeeuw paper does not say that subsidies should be eliminated and leaves open to negotiation the pace and depth of any cuts, but it is right to home in on them, not least because Europe is now becoming isolated on this issue.

Accepting the need to negotiate reductions on export subsidies is the key concession that the EC has to make if a deal is to be struck at the end of the Round. If the summit fails to make this plain, the prospects for the negotiations are grim.

There is no room left for empty compromise and empty expressions of good intent. Less than six months are left to go until the Round is due to end. Without speedy progress on agriculture there is a risk that developing countries may refuse to make concessions in the new areas of services and intellectual property. The US, too, may then abandon hope and walk away from the negotiations. The failure would be total. If heads of state in Houston bite the bullet, however, eventual success could yet be complete.

Capping the poll tax

The British Government is in danger of persuading itself that its community charge will evolve into an acceptable form of local government finance. This would be an error, based on a misreading of the current tide of relatively fine minds.

On Monday a Mori poll in the Times indicated that there has been a further fall in the level of public outrage about the poll tax. In March, as the first bills were awaited, some 49 per cent of those questioned put the tax at or near the top of a list of what they considered to be the most important issues facing the country. Last month the equivalent figure was 30 per cent. Yesterday the Secretary of State for the Environment, Mr Christopher Emswiler, won another legal victory, as his decision to place limits on the budgets of 21 local authorities was upheld by the Court of Appeal. In the House of Commons the Conservative Government suggested that she has been persuaded that the difficulties of collecting the tax are being overcome.

All of this lends strength to those members of the Cabinet who have sought to persuade Mrs Thatcher that no significant new legislative powers to curb local authority spending are now required. The Prime Minister may yet insist on extending Mr Patten's capping powers to include smaller councils with budgets below £10m; beyond that the Government seems inclined to restrict its palliatives to an increased grant to local authorities of some £20m-plus, an addition to "transitional relief" for those most hard-pressed by the charge, and an assortment of technical changes.

Less damaging

Ministers who argue that such a package is unlikely to meet the concerns of Tory backbenchers are being met with the response that in Scotland the poll tax was far less damaging to the Conservatives in its second year of existence than it had been in its first. The second round of poll tax

demands in England and Wales is due in April next year. It is reasonable to expect that many councils will endeavour to keep the charge low. That supports the Scottish theory. Another element of the same theory, the unpopularity of the Labour Party's original proposal for a charge based on incomes and capital values, may not hold good in the south, since the Labour Party nationally is drawing its own conclusions from the Scottish experience. The Tories may, however, seek to regain the political initiative by floating the idea of abolishing county councils, leaving only one tier of local government, at district level. This would remove any doubt about the identity of the authority responsible for a particular level of expenditure.

Whole story

Like so much else about the community charge, such poll-ticking is wholly bogus. It is true that many councils are profligate, and that Labour's propensity to spend is greater than that of the Conservatives. That is not, however, the whole story. First, government subventions, calculated according to formulas made in Whitehall, can have a greater effect on the level of poll tax than any local decisions. Second, the community charge is regressive and therefore inequitable. Third, it has been devised without reference to the proper functions or structure of local government; abolishing county councils without consideration of local authority financing would constitute the same mistake in reverse. There may be a greater closeness to voters where councils are small but, as the experience of London following the abolition of the Greater London Council demonstrates, overall strategic authorities are necessary for traffic planning if nothing else. In short, the Government may win a political respite, if its package succeeds with the Tory party - but, in the substance of the matter, it has lost the argument.

Paris to Lyon: 266 miles in two hours by the TGV high-speed train. Tokyo to Osaka: 324 miles in three hours by the Shinkansen "bullet" train. But what about whizzing from Seoul to Manchuria and then on to frozen Siberia?

Seoul, Pyongyang, Changchun, Harbin, Khabarovsk and Vladivostok, once you have found them on a map, do not appear at first glance to have much to do with each other. Seoul is in economically liberal South Korea; Pyongyang in the hermetically sealed and communist North of the same country; Changchun and Harbin are provincial capitals in the icy part of the People's Republic of China; while Khabarovsk and Vladivostok belong to the equally chilly reaches of the Soviet Union.

But things have not always been as they now seem and, as the remarkable upheavals in eastern Europe have shown, today's order can change very rapidly. Forces are at work which could remodel the geo-political map of north-east Asia.

Economic opportunism is replacing military might. Parts of the great modern Soviet and Chinese empires do not necessarily perceive their main economic and cultural interests in the capitals which rule them, from thousands of miles away, much less share the ideologies of those empires. Siberia and southern Manchuria, for example, are of particular interest to Korean industry because of their rich mineral resources, substantial Korean populations, and their proximity. Regional complementarities and affinities transcend present borders.

Trade is already developing along these lines. Under a recent agreement, the Soviet Union is to supply uranium to South Korea, while the trading arms of Korea's large conglomerates are busy establishing Soviet outlets for their consumer goods.

South Korea is about to call for tenders for a high-speed train, with the French TGV system a leading contender, to run the 237 miles from Seoul to Pusan in the south. A similar route north would land in China. "A high-speed train could make the journey from South Korea to Manchuria in four hours," muses Mr Lee Hong-koo, special assistant to the President for political affairs.

Fanciful dreaming? Maybe, particularly with the not inconsiderable geographic hurdle of North Korea between Seoul and these two destinations. In the 40 years since North Korean forces launched their surprise invasion of South Korea, the border which divides the peninsula has remained one of the icier areas of cold war conflict.

But at the superpower level at least, the pattern of alliances in north-east Asia is now showing signs of change. The Soviet Union and China are paying more attention to developing commercial and economic links rather than insisting on fruitless ideological stand-offs. The most recent and most notable step took place last month when Mr Mikhail Gorbachev, the Soviet President, and Mr Roh Tae Woo, his South Korean counterpart, held their first meeting between leaders of the two countries.

Last year the Soviet Union and China ended 30 years of hostility with a Sino-Soviet Summit in Peking. North Korea has also made some progress towards improving ties. Tokyo is seeking better relations with Pyongyang and there is the potential at least for warmer Sino-South Korean relations. Conceivably even the Soviet Union and Japan could finally end the Second World War by resolving the dispute over the occupied Kurile Islands.

How much progress will be made in easing the entrenched hostility between the two Koreas depends on Pyongyang's reaction to its increasing isolation and economic stagnation. What is already clear is that as the

Economic opportunism is replacing military might on the map of north-east Asia, report John Ridding and Robin Pauley

Thaw reaches cold war's final frontier

regional cold war eases, governments from Moscow to Tokyo and Seoul to Peking are starting to redefine their regional roles and objectives. The new economic pragmatism raises the prospect of a shift in the balance of power away from the military might of the Soviet Union and China to the economic power of Japan and, to a lesser extent, vibrant new trading economies such as Taiwan and South Korea.

It is these economic interests which have warmed up relations in north-east Asia. The Soviet Union's policy of disengaging from costly support of communist allies has reduced its willingness to bankroll the Pyongyang regime, to which it is the principal supplier of capital goods and military equipment. Moscow's closer economic links with South Korea, with bilateral trade doubling to \$900m between 1988 and 1989, have also encouraged closer political ties.

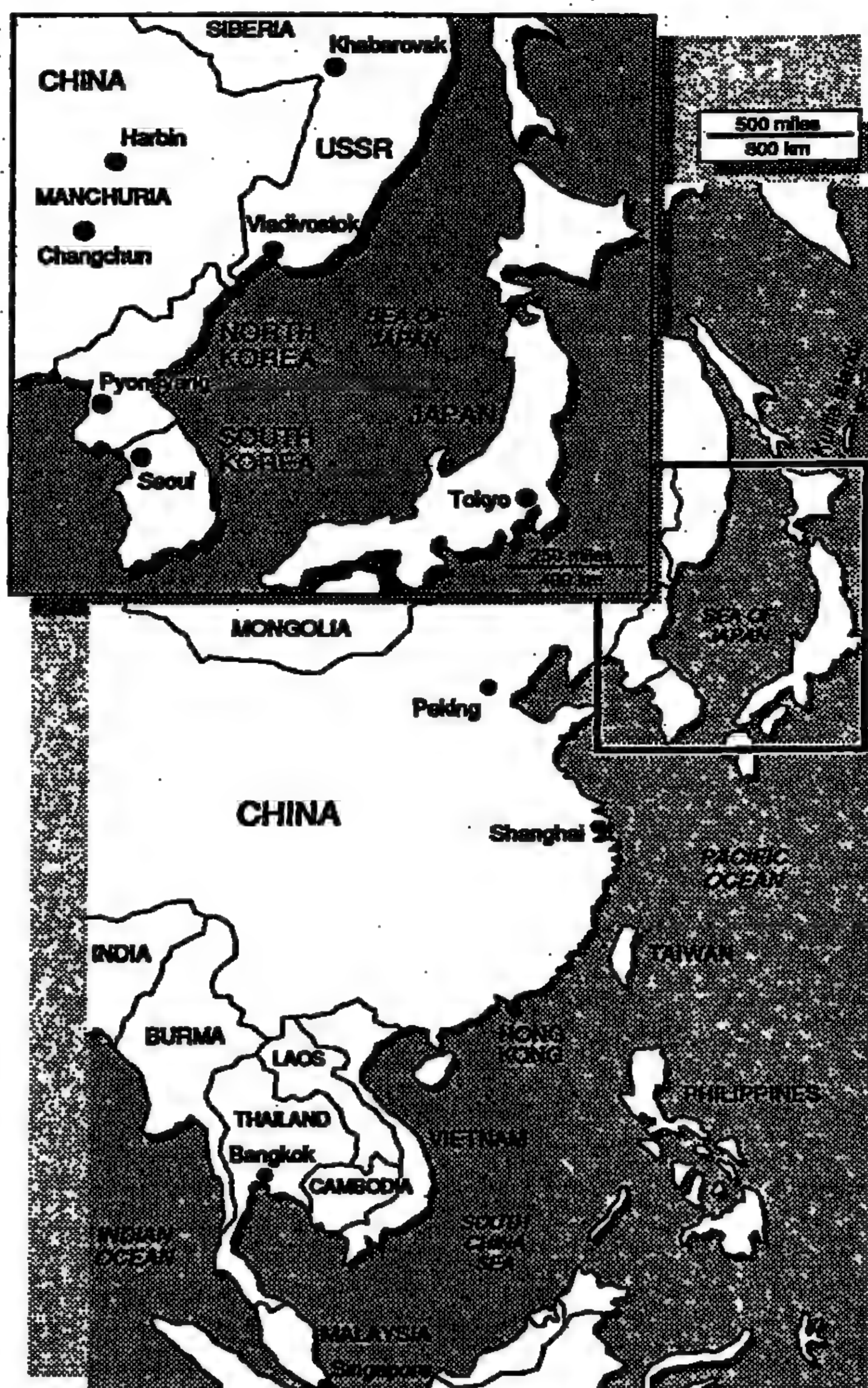
Similar incentives are working on China. Ties are slowly improving with economically more successful Taiwan and buoyant trade underscores the new view of South Korea. Bilateral trade last year exceeded \$2bn, almost four times the estimated level of trade between China and North Korea. While Peking has shown little response to Seoul's diplomatic overtures, it will be anxious not to be left behind by the Soviet Union in attracting Korean economic co-operation. Moreover, improved relations between Moscow and Seoul should increase Peking's diplomatic flexibility with regard to Pyongyang and help to encourage a more positive response from China's leaders. China has been very cautious about offending Pyongyang, not wanting to push the North Koreans towards the Soviets.

"Progress with China will be much slower than with the Soviet Union," says an official at the Soviet Korean foreign ministry, "but we are basically optimistic. China has no reason not to improve relations."

For the US, too, economic considerations have combined with its regional security interests to foster a readiness to improve relations with North Korea. Budget constraints have prompted Washington to agree to most reduce the 43,000 troops it has stationed in South Korea and consequently to try to achieve progress in easing tensions.

Whether such a goal can be achieved depends largely on the reaction of Pyongyang. It has shown a more conciliatory line towards Washington in recent months, the two sides negotiating successfully in Peking, for example, on the handing back of bodies of US troops killed in the Korean war.

But generally progress is slow. And the very fact that Seoul still has to try to bring pressure to bear on Pyongyang through third parties such as its communist allies is itself a reflection of the failure of bilateral initiatives. "The direct road to Pyongyang is completely blocked," President Roh admitted after his San Francisco summit with President George Bush. "We have to find an alternative route through Peking and Moscow."



Diplomats covering the region, and even South Korean officials, are cautious about the prospects for any immediate breakthrough. "Pyongyang's initial reaction has been one of anger towards Moscow and it will take time before we see a change in its stance," says one western diplomat. South Korea's goals are also relatively modest. "We are not aiming at revolutionary change, but even if we can open up North Korea to the level at which China is open it will be a major success," says Mr Lee. This attitude is reflected in South Korea's policy of aiming for one national community or commonwealth rather than reunification for one state which was policy until last year. The difference is important. Seoul intends a gradualist improvement of relations starting with economic, commercial and cultural co-operation rather than pushing all out for immediate reunification. Comparisons with Germany are rightly discounted - East and West Germany never fought a war and have not endured the absolute separation endured by North and South Korea. But the pressures on Pyongyang are growing and many doubt the viability of the regime once Kim Il Sung, the 78-year-old "great leader," dies. Even without immediate progress between North and South Korea, however, the forces for change in regional economic and security links are emerging. Mr Lee Hongkoo says: "Mr Gorbachev plans to visit Japan next year and will have to complete his game plan for the Asia-Pacific region. Japan itself has now reached a stage of sufficient wealth where it needs to think about what sort of neighbourhood it wants to live in."

Japan is very keen not to be seen to be assuming a leading regional security role. It is aware of the sensitivities concerning its previous military expansionism and even if it were not, the Taiwanese, the Koreans, the Chinese et al, are always ready to refresh the memory. President Lee Kuan Yew of Singapore, for instance, recently urged Europeans during a speech to businessmen in London not to leave Asia to the mercy of the Japanese.

Seen from Japan, which is anyway committed to providing its own defence of sea routes up to 1,000 miles from its coasts, there is no perceived threat requiring any new regional security framework. The Japanese are more interested in the Pacific pursuit of peaceful relations through economic policies which they are increasingly willing to reinforce with their financial firepower. As the largest donor to Burma, Japan has halted all aid until a political solution consistent with the will of the Burmese people is in place; Japan has offered to underwrite a huge reconstruction programme for Cambodia but only after a political settlement of its civil war. Bangkok is awash with Japanese businessmen waiting for the right moment of stability for a "push" into Vietnam and Burma followed, less promisingly, by Cambodia.

Japan is equally reluctant to be seen as the region's economic leader for fear of evoking memories of the wartime Greater East Asia Co-Prosperity Sphere. But the facts and figures speak for themselves. Japan takes 25 per cent - the biggest share - of exports from the Association of South East Asian Nations (comprising Thailand, the Philippines, Malaysia, Indonesia, Singapore and Brunei). Japanese imports from Asia soared by 20 per cent last year to \$88bn and Japan has long been Asia's biggest import source, supplying vital machinery and office equipment.

Japan overtook the US in the mid-1980s as the largest provider of foreign capital to the region, the flow of direct investment to Asia almost quadrupling to \$5.6bn in the four years to March 1989.

For South Korea, the long-term priority remains peaceful reunification with North Korea, but not at any price. With its economic muscle, Seoul has the strongest hand and can afford to await developments. Equally important for Seoul, however, is a maintained balance of power. "There are three large powers in the region: China, with the biggest population, the Soviet Union, with the biggest land mass, Japan, with the greatest economic might, and one small power - Korea," says Mr Lee. "If any one of the three becomes dominant then Korea becomes the first victim."

More immediately, Korea's concerns involve the development of economic links with its larger neighbours. Japan is already South Korea's second-largest trading partner (after the US), and vice versa, but Korean industry is pressing for increased co-operation through technology transfer and through combined research and development. In the case of the Soviet Union, the rapid growth in trade and investment schemes have been given a fresh impetus through last month's agreement to establish diplomatic ties.

Obstacles ranging from hard currency shortages to the non-convertibility of the rouble and the continuing risk involved in investing in the Soviet Union remain. As a result, the potential prospects open to Korean business are tempered by caution. "Korean companies are not rushing in with their eyes closed," says one western banker in Seoul.

None the less, there is little doubt about the direction of change and the economic gains which could result from the ending of the cold war schism in north-east Asia. "The time for dogmatism is over," says Mr Lee. "This is no time to be engaged in a cold war."

Holdsworth gets Power

■ Sir Trevor Holdsworth says that he had already done his first piano exercises at 6.45 yesterday morning before he was telephoned with the final confirmation that he had been appointed chairman of National Power. He will chair his first exercise of the company tomorrow.

Richard Giordano, chairman and chief executive of the BOC Group, had more than a hand in the appointment. Giordano is a non-executive director of National Power and was for a time fancied for the chairmanship himself, though he has said recently that he will be more than happy to see out his working days with BOC and anyway might have been too expensive.

A lot of other people were mentioned for National Power as well, including Malcolm Bates, the deputy to Lord Weinstock at GEC. Bates was offered the job by the Government, but he was evidently persuaded by Weinstock to stay where he was.

Holdsworth was one of the first to be approached. He says that he turned down the job in February because he was still too busy being President of the CBI. He adds that he never had any problems about the salary, which turns out to be £185,000 a year.

Giordano renewed the offer clearly with official approval - three weeks ago. In the run-up to privatisation of National Power in eight months' time, Holdsworth sees the chairmanship as a "three day a week plus" job. He will be selling privatisation to the City.

Yet there is a lot more to Holdsworth than salesmanship and piano-playing. He was trained as a chartered accountant, spent a decade at Bova, then turned around GKN from a basically metal-bashing company to a supplier of sophisticated automotive parts. He attends intellectual seminars on the future of industry and society in his spare time.

OBSERVER

There is no doubt about his qualifications for National Power. Manufacturing has been part of his life, he says. "All the industries I have worked in have been intensive users of electricity, steel, paper and chemicals." He is also at home in the City.

Holdsworth will work alongside the National Power chief executive, John Baker, who might have been forgiven for thinking that he could do the job himself, given the difficulties of finding a chairman. Baker is philosophical about it: "The Government said that there must be a chairman."

Both Baker and Holdsworth believe in nuclear power, but want it to be financed in the public sector for the foreseeable future - as indeed the CBI under Holdsworth's presidency recommended.

Holdsworth, now 63, will bring charm to a company which, in case you had not noticed, has been sponsoring the independent television coverage of the World Cup. Next year he will preside over National Power's international piano competition.

Walters back? ■ An advertisement for Professor Sir Alan Walters's forthcoming book, *Leading in Danger*, in the Bookeller is perhaps pushing it a bit. Not only is it described as "the most important economic book of the decade," the ad also states categorically that Walters "is Personal Economic Adviser to Margaret Thatcher." Still?

Cryptic Pöhl

■ Karl Otto Pöhl, the President of the Bundesbank, did not say "once sterling comes under the rules of the Exchange Rate



"I wonder which direction Lenin is turning in his grave."

Mechanism, which I expect to be the case soon" in his lecture to the Institute for Economic Affairs in London on Monday.

Those were the words in his prepared text, but in his delivery the word "soon" was dropped. Since Pöhl had seen Margaret Thatcher between the distribution of the text and his giving the lecture, there was inevitably speculation that she had corrected him.

Pöhl took the obvious question afterwards calmly. He agreed that he had not said "soon." Then he added: "The fact that I didn't say the word 'soon' doesn't mean that I don't mean the word 'soon'."

Someone had forgotten to tell him at the start that the meeting was sponsored by British Airways, so he apologised for having come by Luftansa. The IEA had forgotten to invite Robert Maxwell, the publisher. An invitation was issued to him at the last minute after the IEA had received urgent representations from the Bundesbank. Maxwell asked the first question: "Who bears the cost of

Repentance

■ A BBC monitoring report carries a story from Medellin, the violent drug capital of Colombia. It claims that a group of 200 hired assassins aged between 18 and 20 are anxious to change "their lifestyle." A case of a new life after death, perhaps.

Karate chop

■ Alberto Fujimori, Peru's present elect, has won perhaps his first solid aid commitment from Japan, the country of his forebears. The Kokusai Shotokan karate school in Tokyo has pledged to build a ¥100m (£570,000) martial arts hall in Lima.

The school yesterday presented Fujimori with an honorary eighth-dan karate ranking. He may need it. The name of the edifice, to be built in the next year and big enough for 1,000 students, translates as the Fujimori Memorial Hall.

10p either way

■ While a middle-aged American couple were ordering lunch in a Soho restaurant last Saturday, the wife suddenly stood up and said: "I have to go to the john," before hurrying away. The husband looked up at the waiter. "She's really going to make a phone call," he said, "but she was too embarrassed to tell you."

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Growing pains on a global scale

One of the howling cries of public relations is that the industry is not doing enough to improve its image. It has never really succeeded in shaking off its own image as a refuge for dilettantes and dilettantes.

Those days are over, or so Mr Peter Gummer, chairman of Shandwick, the world's largest PR consultancy, would have us believe. "There was a time when all a PR man needed to do was mix a good martini," he says.

Today things are very different. Public relations is becoming a serious industry. There is some evidence to support this. The level of expenditure on public relations has risen rapidly in recent years. The number of global PR programmes is increasing. A new breed of international networks has emerged.

These new networks include Shandwick in the UK, Hill & Knowlton and Burson-Marsteller in the US. Almost all the big advertising agencies now own a PR consultancy. Some of the large communications companies - notably Omnicom of the US and Eurocom of France - have identified public relations as an important area for expansion.

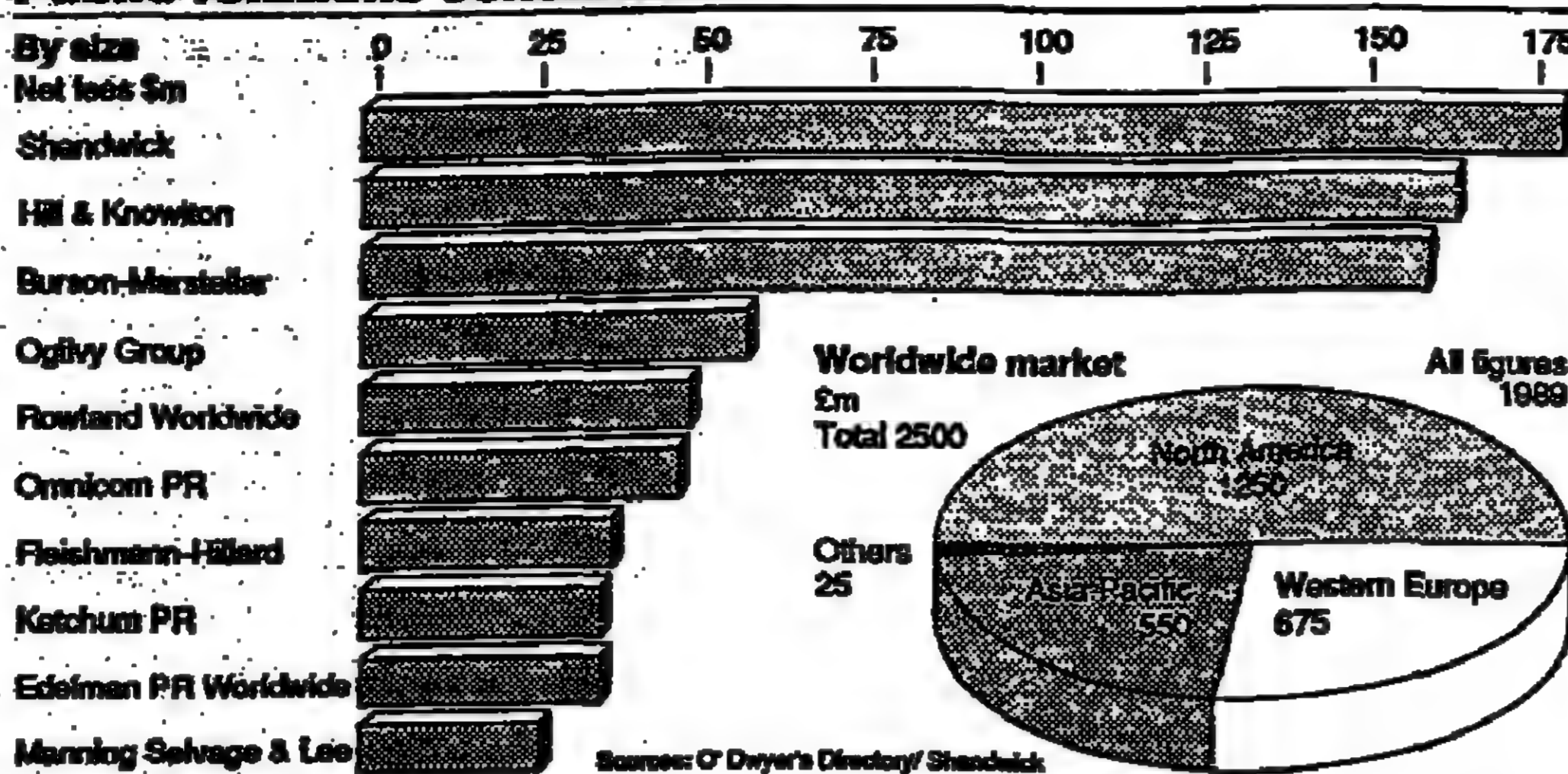
But the industry still shows signs of immaturity. Global programmes are the exception rather than the rule. The typical consultancy tends to be a small company with a handful of employees. Over the next few years it will become clear whether public relations is capable of becoming a truly international industry.

Sensibly the outlook is encouraging. First, the PR market is extraordinarily buoyant, even in economies such as the US and the UK, where other sectors of marketing services are depressed. Shandwick, which estimates the value of the global market for PR consultancies at £2.5bn, anticipates growth of 20 per cent a year into the mid-1990s. Second, a growing number of PR programmes are conducted across more than one country. Just as the multinational consumer goods groups co-ordinate their advertising campaigns across different countries, so they are starting to treat public relations as an international discipline.

"You can't contain information today," says Mr James Dowling, president of Burson-Marsteller in New York. "If a company says something in France, it will be picked up all over the world. Companies

Is public relations becoming a truly international industry? Alice Rawsthorn reports

Public relations consultancies



must be consistent in their communications."

Whereas the first wave of global advertising, such as Coca-Cola and Marlboro, tended to run the same advertising campaigns all over the world, the new PR programmes are generally more flexible. Typically if an international network starts to work with a multinational client, it follows a common strategy across all countries but uses its local offices to adapt that strategy to the needs of their markets.

"Very few companies are interested in fully-fledged global programmes," says Mr Jonathan Rinehart, chairman of Ogilvy PR, another New York-based network. "But what is happening more and more is that work is being done in more than one country at the same time in a tailored way."

When Adams & Rinehart, the financial arm of Ogilvy, acted for Norton, the US industrial group, in its defence against a bid from BTR of the UK last spring, it co-ordinated its work through three offices in New York, Washington and London.

Similarly when Burson handled the relaunch of Ferrier water this spring, the strategy was set by its Paris and New York consultancies, which then liaised with all the local offices. In all, 100 Burson employees across 22 countries were involved with the programme.

These programmes still represent a tiny - if highly profitable - proportion of the over-

all PR market and will continue to do so for the foreseeable future. But the trends in global advertising - the environmental movement, the increase in legislative intervention and the greater public accountability of companies - should fuel a slow, but steady growth in demand for international public relations.

Yet relatively few consultancies are capable of operating across different countries. The pioneers were Hill & Knowlton,

'The industry is due for a shake-out. There will be huge networks and small, specialist shops, but the middle ground has to go'

now owned by WPP, the London-based marketing group, and Burson-Marsteller, part of Young & Rubicam, the US communications company. Both businesses began in the US, but expanded overseas from the 1960s onwards. For years they topped O'Dwyer's table of the world's largest PR consultancies.

Last year a new name - Shandwick - appeared at the top of the table. Shandwick is one of the London-based consultancies companies which went public in the mid-1980s and have since used their public status to stage a series of acquisitions. In the past five

years it has bought almost 45 consultancies in different countries. Shandwick's competitors point to its hefty debts and predict that, sooner or later, it will fall prey to the same problems that have beset Saatchi & Saatchi and so many other acquisitive UK marketing groups.

Mr Gummer brushes aside these doubts. Public relations, he says, is more profitable than advertising (where margins are about 10 per cent for large agencies, against an average of 15 per cent for PR, although Shandwick makes 30 per cent). It is also more stable in that PR consultancies tend to be paid by fees, not commission. Moreover, he says, Shandwick would not have won two-thirds of its recent new business without its international network.

The "Big Three" consultancies - Shandwick, Burson and Hill & Knowlton - all received fees of more than \$150m (£90m) last year. Only two other companies - Ogilvy, also owned by WPP, and Rowland, a subsidiary of Saatchi - mustered fees of more than \$50m. The rest of the industry is fragmented between thousands of tiny companies. One indication of the degree of fragmentation is that the combined fees of the Big Three are higher than those of the rest of O'Dwyer's top 50.

This is changing. The large marketing groups, which are increasingly involved in offering an integrated service to their clients, are actively investing in public relations. Omnicom of the US is expand-

ing the collection of consultancies it inherited from the merger of three advertising agencies - Doyle Dane Bernbach, BBDO, and Needham Harper - four years ago. It has also acquired Gavin Anderson, one of the leading forces in investor relations, whereby companies communicate with their shareholders.

Eurocom, the French group, has acquired ABC, the largest PR consultancy in West Germany. Mr Alain de Ponzillhas, its chairman, sees ABC as a platform for a European PR network. Boulet Du Dupuy Petit, another French group, plans to expand Broad Street, the London-based financial PR company, in which it has taken a minority stake.

Yet these new investors must overcome significant obstacles if they are to become serious players in international public relations. One problem is the shortage of suitable acquisition targets. The small number of established networks are almost all already owned by large groups.

There is a possibility that Saatchi might be forced to sell Rowland to alleviate its financial problems. The future of VPI, one of the largest UK consultancies, is also uncertain after its disastrous acquisition of the Carter Organisation in New York. Mr Don Carter, the spongy founder, has been prosecuted for fraud in a highly publicised court case.

Otherwise the new investors will have to buy businesses on a piecemeal basis. The only alternative would be to start up from scratch. The problem here is the shortage of high calibre staff in public relations, traditionally been regarded as a low status profession. Judging by the steady flow of acquisitions and affiliations within the industry this year, the new investors are determined to overcome these obstacles. If they succeed, then Mr Gummer's vision of an international industry will come closer to reality.

But the PR industry would then have to come to terms with life in a more mature market. There would be more competition for new business. Profitability could come under pressure. Some companies might not survive.

"The industry is due for a shake-out," says Mr Bob Dillenschneider, president of Hill & Knowlton in New York. "There will be huge networks and small, specialist shops, but the middle ground has to go. Public relations is growing up."

Social security cuts

An unnoticed windfall for Thatcher's Treasury

By Michael Meacher

Many recognise that North Sea oil and proceeds from privatisation have provided the Government with huge windfall bonuses for its economic policies in the 1980s. But few realise that a third bonus is well on the way to outstripping even these gains.

This is in savings from cuts in social security benefits which have already over the past decade saved the Treasury more than £27bn. These savings come principally from one of the earliest decisions of the present Government - to break the link with earnings in the uprating of the pension. But cuts in child benefit, unemployment benefit and housing benefit have also contributed to a total saving of more than £6.25bn last year.

In 1980 the Thatcher Government abolished the rule, which had been implemented by the previous Labour Government, that the basic state retirement pension would be increased each year in line with prices or average earnings, whichever was the higher. It decided that the pension would be raised each year in line with the RPI only. In consequence, as real earnings grew sharply in the mid-1980s, a considerable gap opened up between what an earnings-uprated pension would have been and what the prices-uprated pension actually was. Thus the married couple's pension has fallen from 30 per cent of average earnings to 23 per cent today.

The accumulated savings to the Treasury started modestly at £10m a year in 1980, but began to rise substantially from 1983. In 1984 the saving topped £1bn a year, by 1986 £2bn a year, in 1987 £3bn a year, and in 1988 £4bn a year. In the current year the saving is slightly under £5bn a year. Since in almost every year earnings outstrip prices, even in high inflation years such as the present one, this annual savings total can be expected to go on rising steadily. The total, according to government figures published on March 20, has now reached £22.5bn.

Significant additions to this huge total have come from other social security savings. The Government decided in

1987 that it would in future freeze child benefit at its then prevailing cash value. As a result, savings to the Treasury, which again began modestly at £155m a year in 1988, rose rapidly to £660m in the current year, producing a cumulative saving of £1.2bn.

Further savings have come from the Government's decision in 1982 to abolish the earnings-related addition to unemployment benefit. The value of these savings was pushed up greatly as unemployment tripled between 1979 and 1986. Total cumulative savings on this score have now reached well over £2bn. In addition, housing benefit was heavily cut back under the Fowler

but are now steadily falling. Indeed on the present basis it is likely that total cumulative social security savings will top £100bn before the year 2000.

But in addition to existing savings flows, there are two other major sources of future savings that have already been announced, though not yet implemented. One is the cuts in the State Earnings-Related Pension Scheme (SERPS), introduced in the 1986 Social Security Act. The other is the cuts to the Invalidity Benefit Additional Pension, part of the current Social Security Bill. By the year 2013 these two are expected by the Government to add at least a further £5bn a year to total social security

The savings from all these major social security cuts - and there has been a multitude of smaller ones - has reached some £27.28bn. It is a total that can be expected to grow next year by nearly £7bn

social security changes in 1986. As a result there were savings under this item of £450m in 1988, and cumulative savings by the current year of more than £1.5bn.

The combination of savings from all these major social security cuts - and there has been a multitude of smaller ones - has now reached some £27.28bn. It is a total that can be expected to grow next year by nearly £7bn.

As a result of these massive savings, which will increase even faster in future years, it can be expected that the cumulative cuts in social security will exceed the Public Sector Debt Repayment, which has now totalled £36bn since 1987. It is also likely that they will exceed even the total government revenue from successive privatisations, which has mounted to £40bn since 1979.

It is possible to make projections further ahead, though obviously more tentatively. If current trends are projected into the next century, cuts in pensions and other benefits, which are steadily rising, dwarf even the revenues from North Sea oil, which have reached some £100bn since 1979

savings. The latter alone is expected, according to government figures published on January 28, to yield savings in the first quarter of the next century amounting to nearly £20bn.

Even without these additional future planned savings, however, it is clear that the total switch in spending represents the biggest redistribution of income ever seen in this century. Large though the gains to the rich have been in the past decade, they are completely overshadowed by the draining off of funds from the poor. It has been calculated that the tax bill for the top 5 per cent of earners has been reduced by £5.8bn since 1979. Yet the social security savings at the expense of low income groups amount to more than £6.25bn in the current year alone.

The role of income redistribution is no mere sideline of this Government. Paradoxically it is the poorest in the community who are being made to underwrite the whole framework of Thatcherite public expenditure. Mr Michael Meacher is the Labour Party's spokesman on social security.

LETTERS

UK may face engineering brain drain after 1992

From Mr Ivor Owen.
Sir, Charles Leadbeater ("The hunt is on for executive engineers," June 18) highlights interesting issues which both education and industry have begun to address.

This country's leading engineers have always been rather more than the oily rag carrier described in the first part of his Business Column. Considerations of marketing, management, legislative requirements and international competitiveness have been of prime concern to them.

It is, however, true that engineers have often been marginalised into a purely technical role. The attitudes and formation of some engineers have, unfortunately, contributed to this marginalisation. So has the frequent emphasis on marketing, often unrelated to issues of quality and design.

This emphasis appears in the article's reference to the marketing department doing the strategic thinking about which products to make. In fact, it cannot do this properly without the contribution of engineers and other designers who can say what can be made and how. Indeed, there are many international examples that show in the best companies it is the engineers who lead in deciding what products should be made.

Engineering degree courses have in the last decade become

much more industrially oriented, covering design (including manufacturing considerations), management, investment, and industrial structure. This has happened under the guidance of institutions, the Engineering Council, and the Design Council, for whom engineering is a fundamental concern.

The mandatory requirement for design to be a component of engineering degree courses is a key factor in bringing about the new sort of engineer which the article describes, since effective design almost always requires a multi-disciplinary team. The Design Council and the Engineering Council will be publishing later this year, an important report setting out more fully the range of design competences which engineering degree courses should instil, and this should be a stimulus for further development.

Industry must play its part, not only by recognising the changing role of the engineer but by rewarding it accordingly. Already a significant proportion of our engineering graduates do not enter engineering. 1982 could see many of our best engineers joining the brain drain Britain can ill afford.

Ivor Owen,
Director General,
The Design Council,
28 Haymarket, SW1

From Mr R. Sabry-Grant.
Sir, Lynton McLain's readers ("The mechanics of a modern world," June 15) can be forgiven for believing that it takes only five years to become registered as a Chartered Engineer (CEng).

After gaining an approved first degree, two years postgraduate training, then two years responsible experience (minimum seven years engineering formation) are required before candidates become eligible for such registration, in line with continental practice. Chartered Engineers may apply for pan-European recognition by separate registration, signified by the title European Engineer (Eur Ing).

Various enticements, from bursaries and sponsorship to changing course content, have not reversed declining university rolls in engineering. A survey reported last year found that two out of three engineering students sampled, who had spent at least a year in industry during their course, intended seeking careers outside engineering as a result of that experience. This highlights the difficulties of attracting and retaining engineers in this country, notwithstanding implications to the contrary. John Galloway showed that the subjects read at university can be good indicators of social origin in Britain (New Scien-

tist, April 28). Candidates from independent schools, usually estimated at 5 per cent of the school population, are much more likely to read arts, law, or medicine, populate the first division of the Civil Service and the professions, and to afford sending their progeny to the same schools, perpetuating a lofty insulation. Candidates from maintained schools tend to read the "hard sciences" like engineering, physics, chemistry, and mathematics, considered morganatic by the 5 per cent, and to populate the wealth-creating sectors of the economy shunned by that 5 per cent. "Hard scientists" are excluded from the influential echelons of British society (Mrs Thatcher forsok chemistry for law) in very sharp contrast with our more successful industrial competitors.

Calling the occasional engineer to a British boardroom (Business Column, June 18) should be a step towards adequate and fair representation in the corridors of power, not a substitute, if Britain is to have significant influence in the 21st century and beyond. This should become long-term national policy as the insidious and debilitating effects of short-termism, which domino through to engineering salaries are being exposed. R. Sabry-Grant,
32 Grange Gardens,
Pinner, Middlesex

No need for a 13th currency

From Mr Daniel McLaughlin.
Sir, Professor Maude (Letters, June 26) sets out two conditions for the success of the "hard" Ecu, which, if met, would provide Europe with an "alternative non-inflationary currency." But why do we need it when we already have an acceptable anti-inflationary anchor in the D-Mark?

The proposal for a thirteenth currency or hard Ecu is an irrelevancy and should not be given the time of day (and would not, I suspect, if put forward by another European Community member). The fact is that whatever the UK proposes over the next few years, the majority of ERM members will either fix their currencies to the D-Mark or commit themselves to narrower bands. If this is unacceptable to the UK for whatever reason, a more appropriate response

would be to regain control over monetary growth through the existing institutional framework or via an independent Bank of England) rather than to ruminate on the cul-de-sac of an alternative currency. Daniel McLaughlin,
Chief Economist,
Raiffeisen & Co,
28/29 Grafton Street, Dublin

Conservative

From Mr R.T.D. Wilnot.
Sir, Your Moscow correspondent describes Mr Ligachev as the "leading conservative" in the Soviet Communist Party. Surely there is a case for describing Mr Benn as "the leading conservative" in the Labour Party. R.T.D. Wilnot,
12 Kylesmore House,
Candy Street, SW1

The Globe bid: 'unfortunate results of non-referral'

From Mr Richard C. Thornton.
Sir, I feel compelled to draw your attention to the unfortunate results of the Secretary of State for Trade and Industry's decision not to refer the British Coal Pension Funds' bid for Globe Investment Trust to the Monopolies and Mergers Commission ("Globe bidder given green light," June 16).

Immediately following this decision, the BCFP was able to instruct its brokers to enter the market and attempt to purchase control of Globe in the open market. This open market bid failed.

Thus Globe has become a "bought" company, with the result that the managers' authority and future have become uncertain. This cannot be good for shareholders or encourage prudent long-term

investment decision-taking. BCFP seems likely to end with an untidy shareholding - more than the 29.9 per cent which triggered the bid, but substantially less than the control which it seeks.

An overwhelming majority of the "small" shareholders, for whose investment Globe was originally designed, appears to have signified dismay and rejection of BCFP's bid.

It must be very much open to question whether the Secretary of State's decision was in the best interests of those minority shareholders whom the Financial Services Act was presumably intended to protect.

Richard C. Thornton,
Chairman Management,
33 Cavendish Square, W1

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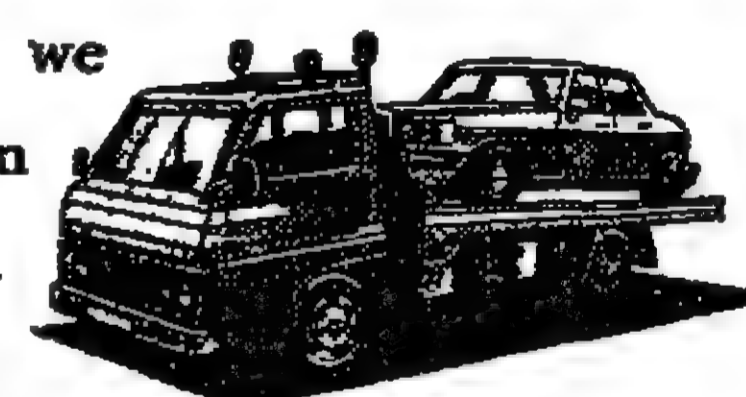
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INTERNATIONAL COMPANIES AND FINANCE

W German insurer in unusual rights issue

By Katherine Campbell in Frankfurt and Haig Simonian in Milan

AACHENER und Münchener Beteiligung (AMB), the West German insurer, is raising DM448.25m (\$270m) through an unusually structured rights issue which is likely to be taken up entirely by Fondiaria, the Italian insurer with which AMB has links.

AMB has a majority stake in West Germany's RIG, the loss-making former trades union bank which is engaged in a strategic reorganisation. RIG has said it needs to raise DM1bn from its two shareholders, AMB and the trades union holding company, by the end of the year.

AMB, which became involved in the bank before the extent of its exposure to the Co op retailing fiasco was known, is being asked to contribute about DM500m of the total.

In what is seen as a gesture of reciprocity for AMB's participation in the Italian group's recent reorganisation, Fondiaria will acquire a 5.8 per cent stake in AMB, if it takes up all the rights.

Costing DM1.630 each, in a one for 16 offering, the 275,000 new shares are priced at a substantial premium to existing AMB paper which is trading in the market at about DM990.

Fondaria's 5.8 per cent stake will cost 1.235bn, making it the second biggest shareholder in AMB after Royal Insurance of the UK, which has a 20 per cent stake.

While the rights premium effectively disenfranchises other AMB shareholders, who are unlikely to subscribe at that price, the new block of more costly shares will increase the net asset value.

According to Mr Helmut Gies, chief executive, speaking at yesterday's annual general meeting, even if shareholders do not exercise their rights, their respective holdings will "not be diluted".

Mr Bob Yates, head of Euro-equities at Fox-Pitt, Kelton in London, argued that shareholders would only be cheated if the move led to control of AMB passing to Fondiaria, a course he considered unlikely.

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Asset sales save Enimont from loss in first half

By John Wyles in Rome

RELATIONS between the leading shareholders in Enimont, Italy's turbulent public-private chemicals joint venture, touched a new low yesterday with the disclosure that only asset sales prevented the company from registering a loss in the first half of the year.

While details of the various sales have not yet emerged, the L500bn which they have yielded helped carry Enimont to a pre-tax profit of L182bn (\$145m) in the first six months. Net operating profits were L477bn, the gross operating margin L837bn and total sales L7,111bn. No comparable figures were available for the same period last year.

Announcing the figures, Mr Sergio Cragnotti, managing director, caused some surprise by accusing Eni, the state energy company which owns 40 per cent of the joint venture, of trying to frustrate the recent floating of a \$1bn medium-term loan.

Eni had exercised "explicit pressure" on financial market operators "to have the loan denied".

Eni responded with a quick denial, accusing Mr Cragnotti of giving credibility to "irresponsible rumours" and calling for "a quick correction".

Reemtsma to take over E German cigarette maker

By David Goodhart in Bonn

REEMTSMA, the West German cigarette manufacturer, is taking over the main cigarette producer in East Germany, VEB Tabak Nordhausen, based in Thuringia.

Mr Ludger Staby, Reemtsma chairman, said the deal was confirmed but that the company was waiting for the accounts to decide on the valuation of VEB Tabak.

Reemtsma has provided VEB Tabak with new machinery and helped to develop a lower tar version of Cabaret, the most popular East German cigarette which holds about 33 per cent of the market. Under the

Eni said it had never been obstructive, and was doing everything possible to defend its capital investment and the interests of Italian chemicals. It suggested that Mr Cragnotti might be trying to cover-up "now undeniable management inadequacies" or other "particular interests".

Since Mr Cragnotti is Mr Raul Gardini's choice of managing director, the Eni statement serves to confirm the continuation of open warfare between the state shareholder and Mr Gardini's Montedison, which also has 40 per cent of Enimont.

Yesterday's exchanges follow a sharp division between the two sides over Mr Cragnotti's five-year business plan for Enimont with Eni contesting a proposal to raise a further L1,000bn through sales of refining and fertiliser production assets.

The plan did not win the necessary two-thirds majority at a board meeting last Friday and will be put to a shareholders' meeting this Friday. If Eni continues to block it, then Mr Cragnotti will call a shareholders' meeting where Montedison can muster a simple majority for the plan to be adopted.

Nippon Yusen buys shipping group

By Karen Fosell in Oslo

UGLAND Aal Car Carriers (UACC), a joint venture shipping company partly owned by one of the oldest Norwegian shipping families, has been sold to Nippon Yusen, Japan's biggest shipping company, for about \$170m.

For Nippon Yusen, the purchase represents the first step into the transportation business in Europe ahead of the planned 1992 national market reforms. Demand for transportation within the region is expected to grow rapidly.

UACC is based in the Cayman Islands, but Andreas Ugland Car Carriers, its biggest shareholder with a 35 per cent stake, is based in the tiny Norwegian west coast town of Grimsstad. The other owners are the Aals, a Japanese-based Norwegian shipping family, and Davila, a Spanish shipping agent.

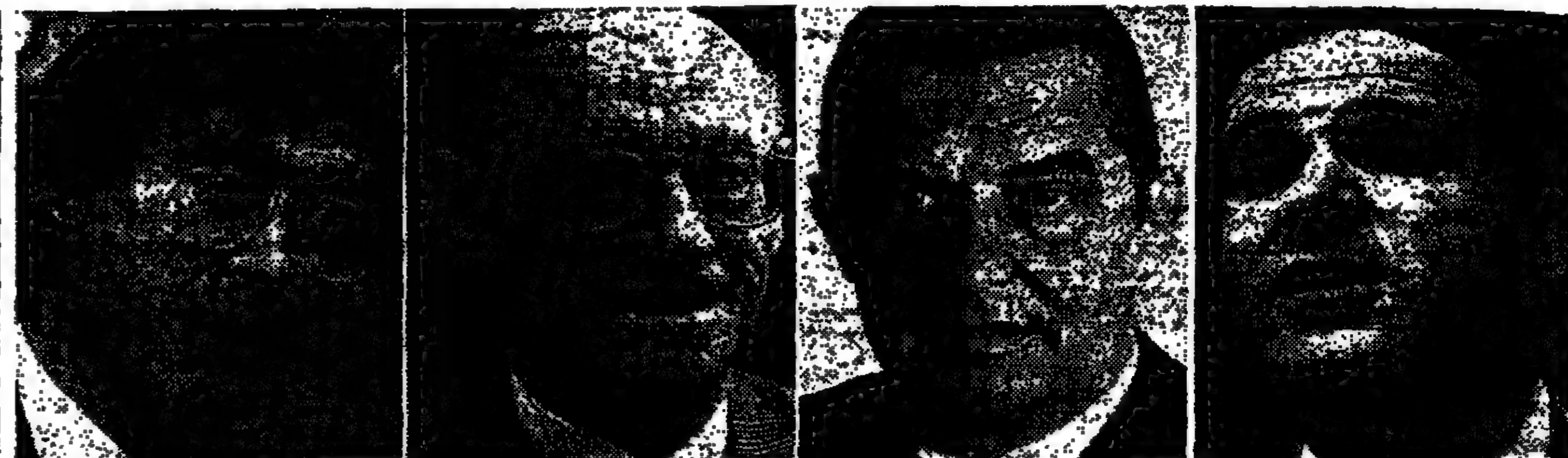
The deal involves 19 "short sea" car carriers with a combined transport capacity of 11,700 vehicles. Short sea carriers normally operate short-distance deliveries between markets and not in open seas like their counterparts, "deep sea" carriers.

Last year the Ugland family reorganised their businesses into two different companies, Ugland Rederi, which is controlled by two brothers, and Bergdal, which is controlled by two sisters.

Mr Andreas Ugland said yesterday that the deal was very complex but that the Japanese "had kept the total organisation intact to ensure customer continuity." All workers at UACC will continue their jobs with Nippon Yusen.

After the takeover, Nippon Yusen apparently plans to carry cars made not only by European manufacturers such as Fiat and Volkswagen, but those produced by Japanese car makers in Europe as well.

© Norway's Norwold Shipping is to buy a controlling interest in Dual Drilling, a US oil drilling company, from parent Bechtel Investments of San Francisco for \$170m, Reuter reports. Dual has a fleet of 32 rigs - 10 deep drilling platform rigs, seven deep water jack up rigs and 15 land rigs.



Claudio Aranzadi: was keen for Fiat to buy Enasa

Edvard Reuter: Daimler may raise its stake

Klaus Götte: MAN could end its part of the deal

Sir Leon Brittan: suggested Enasa should be split

Spain 'desperate' to save Enasa deal

By Peter Bruce in Madrid

MR CLAUDIO ARANZADI, the Spanish Industry Minister, is due to hold talks with the West German Government in Bonn today in what officials in Madrid admit is a "desperate" effort to salvage the unsummed Pt28bn (\$275m) acquisition of Enasa, Spain's biggest truck producer, by Daimler-Benz and MAN.

Daimler and MAN won a close-run contest against Fiat, DAF and Volvo late last year to buy Enasa, which is controlled by INI, the state industrial holding company.

Under the deal, MAN would take 60 per cent of the group and Daimler 20 per cent. INI would continue to hold the remaining 20 per cent and would purchase an 8 per cent stake in the MAN holding company.

But the deal, which made the Spanish allies of two of Europe's most powerful truck makers, is rapidly going sour.

There is deep concern in Madrid that the purchase may not go ahead. The West German Cartel Office, in a provisional announcement in May, opposed it, saying that it would mean that Daimler and MAN, which already control more than 80 per cent of the West German truck market, would have to collaborate and that this would affect the local market.

Shortly afterwards, Sir Leon Brittan, the European Competition Commissioner, also pronounced against the deal, suggesting Enasa should be split into two, with Daimler taking its light truck division and MAN buying the heavy truck operations.

The Spanish responded in June with a proposal that an Enasa holding company be created and held by Daimler, MAN and INI, and that its light and heavy truck operations be split and managed separately by Daimler and MAN. There has been no response to this suggestion but the Industry Ministry in Madrid knows it is only a cosmetic change to the original agreement, and the Cartel Office's objections remain unchanged.

The Cartel Office has allowed Daimler and MAN until July 15 to come up with alternative proposals but both companies have been insisting that, though they want to buy Enasa, they are only prepared to do so under the terms agreed last December.

Mr Aranzadi will thus try to do two things in Germany this week. Today he will try to persuade Mr Helmut Haussmann, the German Economics Minister, to agree to override any final negative Cartel Office judgment as he did recently to allow the takeover by Daimler of Messerschmitt-Bölkow-Humboldt.

This will be hard to do as Mr Haussmann has to invoke the "national interest" to thwart the cartel authority.

Tomorrow, Mr Aranzadi meets Mr Edvard Reuter, Daimler's chairman, and Mr Klaus Götte, chairman of MAN, mainly to discover whether they are still interested in pressing ahead with the deal. One possibility would be MAN completing its part of the acquisition alone, and taking 60 per cent of Enasa. But MAN refuses to enter Spain without Daimler and is suggesting that, anyway, buying into Enasa no

longer fits its strategic plans. Although Daimler, according to one Spanish report, would be prepared to raise its stake to 30 per cent and come on its own, government officials here reckon it too has lost interest in the Spanish acquisition.

Spanish officials openly suggest that the West German companies' original efforts to buy Enasa may simply have been motivated by a desire to prevent Fiat from gaining a bigger share of the European market.

"There seems to be some doubt about [Daimler's] real interest in buying Enasa," said a senior government official in Madrid yesterday. "You have to ask yourself what the real reasons for the Germans bidding were."

These officials suspect that both Daimler and, perhaps, MAN, may now want to direct their energies to the east European market and are finding both the Cartel Office and Commission judgments convenient covers behind which to continue professing support for the original deal while knowing that it cannot be implemented.

Enasa, officials say, is being seriously damaged by the doubts about its future ownership.

Sales have fallen and stocks are rising as customers opt for safety and choose steeper competitors. After breaking even last year, Enasa is said to have lost more than Pt40m so far this year.

If the deal falls for lack of an alternative design, that alone could weigh heavily on the chairman of INI, Mr Jordi Mer-

cader, who pressed the West German bids ahead of Fiat, which was strongly favoured by Mr Aranzadi.

"If only we had sold Enasa to Fiat none of this delay would have happened," complained one government official, who asked not to be named. Mr Aranzadi had been keen for Fiat to buy Enasa to secure plans by the Italian state-owned glass producer, SIV, to build a float glass plant in Galicia in northern Spain.

If the West German acquisition falls through, Fiat would obviously be the leading contender to buy Enasa, although both DAF and Volvo might bid again. Enasa's Pegaso trucks have a leading 33 per cent share of the rapidly growing Spanish market for trucks of more than 15 tonnes.

The Spanish have, in all, a 5.3 per cent share of the European market for trucks of more than 9 tonnes.

Mr Aranzadi, though, has to at least go through the motions of trying to save the Daimler-MAN agreement. The obvious failure by all the parties concerned to forecast the Cartel Office's objections is most embarrassing for Madrid, which has been made to look naive and inexperienced abroad and incompetent in formulating industrial policy at home.

The EC's opposition is assumed to have been copied from Berlin and would probably be hard to sustain if Mr Aranzadi managed the impossible today and tomorrow and persuaded Mr Haussmann to help him - or at least got MAN to change its mind and to come to Spain alone.

IFT

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MMC INVESTIGATIONS INTO RAZORS AND RAZOR BLADES

The Monopolies and Mergers Commission is investigating whether there is a monopoly in the supply of razors and razor blades for wet-shaving use and, if so, whether any aspect of it operates against the public interest. At the same time the Commission is conducting a merger inquiry to consider whether acts or omissions arising from the provision of finance to Swedish Match NV for certain acquisitions, including the Wilkinson Sword companies in the EC, operate against the public interest.

Any persons wishing to give information or views on these subjects should write, as soon as possible but not later than 20 July 1990, to: The Reference Secretary (Razors and Razor Blades Inquiry), Monopolies and Mergers Commission, New Court, 48 Carey Street, London WC2A 2JT.

IN THE MATTER OF ESLEA HOLDINGS LIMITED AND IN THE MATTER OF THE COMPANIES (SOUTH AUSTRALIA) CODE

THE creditors of the above named company are required on or before the 15th day of September 1990 to prove their debts or claims and to establish any title they may have to priority by delivering or sending through the post to the Scheme Administrator at the undermentioned address an Affidavit verifying their respective debts or claims. In default they will be excluded from the benefit of any distribution made before such debts or claims are proved or such priority is established and from objecting to any such distribution.

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QUEBEC CENTRAL RAILWAY COMPANY 4% FIRST MORTGAGE DEBENTURE STOCK

Corona bid for Stikine sweetened at 11th hour

By Robert Gibbons in Montreal

CORONA Corp., the big Ontario gold producer, has sweetened its bid in an 11th-hour effort to wrest control of Stikine Resources from Placer Dome, North America's biggest gold producer.

Stikine is an exploration company owning 50 per cent of the Eskay Creek gold property in north-western British Columbia with an estimated value of more than C\$500m (US\$427m).

Corona, headed by Mr Ned Goodman, the Toronto financier, has dropped an earlier plan to restructure the whole Corona group. It is now offering new Corona preferred stock with an estimated value of C\$70 for each Stikine share.

CGS plans big European shake-up

By William Dawkins in Paris

CAP GEMINI Societ (CGS), the leading French computer systems group, is in the early stages of planning a big reorganisation of its management structures across Europe.

Mr Philippe Glantz, the former managing director of Alcatel Europe's largest supplier of telecommunications equipment, has moved to CGS to advise on how it should adjust its organisation in line with the increasingly international behaviour of its corporate clients.

Mr Glantz is known for having handled the 1986 merger of the European telecommunications equipment businesses of ITT of the US and France's Compagnie Generale d'Electricite to form Alcatel. Since then he has admitted differences of view with Mr Pierre Suard, the telecommunications group's chairman.

Mr Glantz expects to table plans for a new organisation for CGS in one to two years. "This will be a major change of approach to the business, compensation systems, reporting and everything else... But as in any service business, it will have to be done with the complete consensus of the management," he said.

This was a natural moment to leave Alcatel because the first phase of merging the two sides was complete, though Mr Glantz has differed with Mr Suard over management style and the amount of French influence in the group.

He had opposed Mr Suard's decision to shift Alcatel's headquarters from Brussels to Paris two years ago. Mr Glantz will not be directly replaced at Alcatel because operating decisions have increasingly moved to the directors of its four product units - public switching, business systems, radio communications and cables.

An aggressive acquisition programme has left CGS with 22 autonomously managed subsidiaries in 12 countries outside France and 14 offshoots on its home territory, employing more than 10,000. The group believes it should now organise its offshoots by business segment, rather than geographical area, so that it can cope better with clients' specialised needs.

CGS is a systems integrator, which means it selects the most appropriate hardware and software to tackle customers' problems, a growth area in the otherwise sluggish computer industry. However, computer makers are also going into systems integration, so putting pressure on CGS to offer more specialised services.

Club Med's listed US subsidiary, Club Med Inc., had earlier reported a 37 per cent jump in first-half net profits to \$31.4m. However, with a decline of 6.4 per cent in the value of the dollar, the contribution to the parent company's results grew less strongly.

Club Med earnings fall as sales rise by 8%

By George Graham in Paris

CLUB Méditerranée, the French holiday tour operator, has reported a small drop in first-half earnings despite stronger sales and a much improved performance from its US operations.

Net profits in the six months to April 30 fell by 3 per cent to FF116.8m (\$20.9m), although sales rose by 8 per cent to FF33.67m.

Club Med's listed US subsidiary, Club Med Inc., had earlier reported a 37 per cent jump in first-half net profits to \$31.4m. However, with a decline of 6.4 per cent in the value of the dollar, the contribution to the parent company's results grew less strongly.

Alitalia quits race for Argentine airline

By Gary Mead in Buenos Aires

ARGENTINA'S planned privatisation of Aerolineas Argentinas, its national airline, has been thrown into confusion with the withdrawal of another international operator, the Italian company Alitalia.

Mr Mario Guaragna, under-secretary at Argentina's Public Works Ministry, announced Alitalia's decision late on Monday. A month ago American Airlines also abruptly pulled out of the running.

A cash price of \$220m plus debt-equity exchange of \$15m are the minimum terms placed by the Government for the purchase of 85 per cent of Aerolineas. The Government has been hoping for offers considerably in excess of the minimum, given the strong desire of foreign banks to clear as much as possible of their Argentine debt, on which no interest payments were paid between April 1988 and June this year.

Alitalia had been working in association with Citibank, the US bank, which last week secured a big revaluation of ENTEL, the telecommunications company.

Alitalia's withdrawal means that only two groups remain publicly interested in Aerolineas. KLM, the Dutch airline, partnered by Varig, the Brazilian company, and under the umbrella of Chase Manhattan, the US bank, faces competition from Iberia, the Spanish airline, whose main associate is the Cielos del Sur, the Argentine company which owns Austral, the largest domestic carrier.

However, there are strong suggestions in Buenos Aires that the KLM-Varig-Chase group may also walk out before July 6. Ironically, one reason being put forward for the last minute collapse is the success of last week's ENTEL privatisation, which featured \$50m in debt-equity exchanges and agreed on trading Argentine debt at 13 per cent of its face value, the figure most recently quoted on secondary debt markets.

ENTEL's better-than-expected sale is now leading to disputes on both sides about the true value of Argentine debt, with Argentine government pressure to trade the debt for Aerolineas equity at a rate higher than 13 per cent.

Variegated past of perennial General Host

Andrew Baxter on the patchy progress of the largest US operator of retail nurseries

MR Harris Ashton's annual trips across the Atlantic to fertilise investor interest in General Host, the largest US operator of retail nurseries, would not be complete without a down-to-earth comments on the state of the industry elsewhere.

Commenting on garden centres in the UK, Mr Ashton, chairman of the Connecticut-based concern, calls a spade a spade: "They're almost like an outcrop, saving you lunch and looking after your children. I don't see the return on investment there... There's too much space chasing too few dollars."

Mr Ashton, however, has had problems in his own backyard in recent years during a heading rush in the mid-1980s to expand his flagship subsidiary, Frank's Nursery & Crafts, which now has 273 outlets, mainly in the east, midwest and south of the US. General Host's sales last year were just less than \$500m, making it the second largest nursery sales company after K Mart, the discount retailer.

Encouraged by demographic trends - the middle-ageing of the baby-boom generation with its high disposable income - and the highly-fragmented nature of the garden industry, store openings reached a frenetic 61 in 1986, more than one a week. But General Host's technology and management controls failed to keep pace.

A programming error in a computer system introduced in 1986 meant that inventories were being measured inaccurately, and that Mr Ashton and his team were making decisions based on wrong information. The manager responsible for the mess, which cost \$23m before tax, was sacked, but Mr Ashton resisted the normal US practice in these circumstances, which is to call in the lawyers.

"The computer programme error set us back four years," he says. "We decided not to sue the accountants but set down with them to work out some changes."

The episode has proved to be a blessing in disguise for General Host. Mr Ashton says frankly that "we tried to grow the company too fast, and we fell on our face." Store openings are down to a more manageable level, with 10 new outlets projected this year. Costs have been pruned at head office and individual stores, and just-in-time stock control introduced to keep wastage of "live" plants to a minimum.

At the same time, the company is hoping to make technology work in its favour rather than to its detriment. Laser-scanning is set to be introduced at all General Host's check-outs by November, speeding up queues, cutting theft by customers and opening the way to automatic stock reordering.

The new approach has helped General Host weather two tough years for the lawn and garden industry, which is reckoned to have yearly sales of \$1.6bn. That, however, includes \$30m for lawn mowers and power tools which General Host does not sell, but excludes the craft sector which is about the same size, and similarly fragmented.

The nursery business, inevitably, is strongly influenced by the weather, and the 1988 US drought left sales falling. Last year, conversely, heavy rains in the important spring season discouraged people from fertilising and seeding their backyards, and sales suffered again.

Saks expects 20% lower profit than forecast at bid

By Karen Zagor in New York

SAKS Fifth Avenue, the well-known US retail chain which was acquired by the Bahrain-based Investcorp for \$1.6bn in a deal completed on Monday, is expected to have first-half trading profits of \$6.4m, about 20 per cent less than the investment forecast when it bid for the company.

Investcorp has projected that Saks will increase its store base by only one store, to 49, in the next five years.

Melville takes on Circus World toy shops for \$95m

By Karen Zagor

MELVILLE, the diversified specialty US retailer whose businesses include toy, shoe and drug stores, yesterday said it would acquire the operating assets of Circus World Toy Stores in a deal worth about \$95m in cash, making Melville the largest US toy retailer operating in shopping malls.

Shares in Melville added 5% to 53 1/2 at midday yesterday on the New York Stock Exchange. The company's stock traded in a range of \$36 1/2 to \$39 1/2 last year.

Melville has been on somewhat of a shopping spree in the past week. The company acquired Peoples Drug Stores last week for \$30m, which will make Melville the fifth-largest US drugstore chain. The Peoples takeover will be financed from operating cash flow and existing lines of credit.

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INTERNATIONAL COMPANIES AND FINANCE

State guarantees return of Farrow depositors' funds

By Kevin Brown in Melbourne

VICTORIA state Government yesterday bowed to political pressure and agreed to guarantee a full return to depositors in the failed Farrow Corporation building societies group.

Mr John Cain, the state premier, said the Government would ensure that about A\$1.8bn (US\$1.4bn) of depositors' funds would be repaid in full "over time".

Meanwhile, the state Government would finance a payment of between 20 cents and 25 cents in the dollar "as soon as possible" to ease hardships being faced by the group's 200,000 depositors.

The government guarantee depends on the agreement of a syndicate of 19 banks, which would have to postpone plans for an immediate sale of Farrow's assets to recover secured debts of more than A\$900m.

The banks had not responded to the Government's proposals last night, but the syndicate was thought unlikely to put the plan at risk.

The announcement followed a stormy meeting of the Victorian parliamentary Labor Party, at which Mr Cain was

warned that public anger over the Farrow collapse could bring down the state Government.

The Government had previously refused to accept moral or legal responsibility for the collapse, in spite of a Cabinet statement in February that there was no need for depositors to withdraw their funds.

The privately owned Farrow group ceased trading a week ago after the state Government put in an administrator to deal with a liquidity crisis brought on by low-margin lending.

The crisis came to a head on Monday, when the group's three building societies — the Pyramid, Countrywide and Geelong — failed to reopen their doors after the failure of weekend attempts to find a buyer for the group.

Other Victorian building societies reported increased business yesterday, but none appeared to be suffering from a run on funds, and all were operating normally, without restrictions on withdrawals.

The liquidity of the remaining societies was underwritten on Monday by a line of credit extended by banks.

Bond Corp plans to change balance date

By Gordon Cramb

MR ALAN BOND'S debt-laden group of Australian companies plans to change its year-end to September, it announced yesterday — three days after shareholders and creditors had assumed that its latest year to the end of June had finished.

The unusual move was being studied last night by the Australian Stock Exchange and the National Companies and Securities Commission, the country's corporate watchdog.

If a change is sanctioned, it will be the latest in a line of technical, procedural and accounting devices deployed by the group to stave off a threat of liquidation which has been hanging over the Perth-based Bond Corporation for more than six months.

The delay is intended to allow the transfer of its Swan, Castlemaine, XXX and Toodyay's brewing interests to Bell Resources, an independently managed 50 per cent subsidiary, in time for the A\$1.8bn (US\$1.4bn) deal to be reflected in Bond's 1989-90 accounts.

This deal was stalled first when Bond Brewing Holdings, the unit involved, was put temporarily into receivership at Christmas at the behest of a syndicate of bank creditors. After two months Bond succeeded in having the court rul-

ing overturned.

It still awaits approval by holders of the group's convertible bonds, after inconclusive meetings in London last week. At the one meeting last Thursday which gained a quorum, an adjournment was unexpectedly called when it became clear that the group had not been able to muster the necessary majority to vote through an interest moratorium and changes in the terms of the bonds which would permit the breweries to be sold.

These meetings are being reconvened on July 19, when bondholders will be told that a rejection would be likely to trigger the liquidation of Bond Corp.

The statement by the company yesterday said the change in balance date also affected all Bond Corp subsidiaries — suggesting that this would include Bell Resources and Bell Group, the two main quoted offshoots, in spite of Mr Bond and his executives no longer representing a majority on their boards.

Bond Corp made a net loss of A\$980m in its year to June 1989, and this had been expected to widen significantly if its latest year had ended last month. In the first six months to December the loss reached A\$758.2m.

Carter Holt and BIL may form partnership

CARTER HOLT Harvey, the New Zealand forestry group which last month agreed to buy 52 per cent of Elders Resources NZEP from Australia's Elders IXL, may soon have as a partner Brierley Investments (BIL), New Zealand's leading entrepreneurial group, writes Dai Hayward in Wellington.

BIL and Carter Holt have been discussing the possibility of BIL taking a larger share in the company. This would probably be done by buying some of the 25 per cent stake in Carter Holt owned by the Carter family.

BIL obtained 5 per cent of Carter Holt when it sold its joint holding of Printpack UEB. It also gained about 4 per cent of Elders Resources.

Mr Bruce Hancock, BIL chairman, would not comment on how much of Carter Holt it would like to own, but said that BIL was very impressed with Carter Holt and would like greater participation.

Mr Richard Carter, chairman of Carter Holt, may be interested in a deal with BIL to help relieve his company's debt level.

US institutions buy 45m shares in Robt. Jones

ROBT. JONES Investments (RJI), a New Zealand property company, said yesterday that US institutions had bought 45m shares in the company through a recent promotional tour to New York and Boston, AP-DJ reports from Wellington.

The shares came from accumulated treasury stock and from its employee unit trust. It said the shares were placed at market value, but gave no details of price or the identity of the buyers, although Sir Robert Jones, chairman, said the stock seemed to have particular appeal to education-oriented US pension funds.

International investors now hold 150m shares, or 20 per cent of RJI, he said.

The stock price has ranged between 95 cents and NZ\$1.05 over the last month.

Yesterday it rose 1 cent to 99 cents as the sales were booked — turnover in RJI reached 45.2m shares valued at NZ\$44.3m (US\$26.3m) and accounted for the bulk of the day's dealings on the exchange, of 53.2m shares valued at NZ\$62.3m.

JAL plans charter venture

JAPAN Air Lines (JAL), the country's flag carrier, is to establish a Tokyo-based international charter flight company, Reuter reports from Tokyo.

A JAL official said most flights would be between Honolulu and Japanese regional cities such as Fukuoka. Other destinations would include Hong Kong, Singapore, Guam, Saipan and Bangkok, and operations would be launched in April next year.

JAL would provide an initial Y30n (\$11.2m) in financing, but might seek partners among marine transport companies and travel agencies if the ven-

ture was successful, he said. The new charter company plans to use one DC-10 and two Boeing 767 aircraft leased from JAL, and intends to employ foreign crews to cut operation costs. The official indicated that charter flight fares were expected to be 60 per cent of regular fares.

Spilling oil prices, combined with a rising Singapore dollar and wage inflation, have weighed down the profitability of Singapore Airlines, Mr J.Y. Pillay, the chairman, said, Kyodo reports. He said in the annual report it was worrying that productivity had fallen behind wage increases.

PIA aims to boost global activity

By Paul Betts, Aerospace Correspondent

PAKISTAN International Airlines (PIA), Pakistan's state-owned carrier, is seeking to boost its international operations to raise foreign currency revenues to offset its loss-making domestic operations.

Mr Arif Abbasi, the airline's new managing director, said in an interview in London yesterday that PIA's domestic operations were expected to lose the equivalent of £10m (\$17.5m) this year.

Mr Abbasi, who returned to the airline about nine months ago following the change of Government in Pakistan, has

also decided to introduce more rigorous accounting procedures at PIA. He said he wanted the airline to report its operating results in US dollars because reporting the figures in local currency was a form of disguising the real financial state of the carrier.

Changes in the management structure and attitudes of the airline, coupled with recent negotiations with five labour unions, have strengthened morale at PIA, Mr Abbasi claimed.

The airline is now making a big effort to restore its international image by refurbishing

its fleet, redesigning crew uniforms and improving food and service. The PIA managing director said the airline was negotiating a new catering agreement for the airline with, among others, Lufthansa and the Maxim group.

PIA is also expected to complete a blueprint of its fleet modernisation needs in the next few months. However, Mr Abbasi appears to be in no hurry to embark on expensive new aircraft purchases at this stage, placing the priority on improving the airline's current international revenue earning operations. The airline oper-

ates a fleet of Boeing 747s, Airbus A300s, Boeing 737s, Boeing 707s and Fokker F27s.

Among other imminent moves are negotiations to join international computer reservation systems. Mr Abbasi also has his eye on expanding routes to eastern Europe, which he believes has "tremendous potential," as well as to Sydney, Australia.

He appears confident that the various moves undertaken by the airline should restore underlying profitability, with the carrier showing good results in US currency terms next year.

Mine criticised for altering offer terms

THE Kuala Lumpur Stock Exchange (KLSE) yesterday criticised Sungai Besi Mines for revising the terms of its offer for a stake in Tradewinds (Malaysia), terming the alteration "totally irresponsible and unbefitting of a public listed company," AP-DJ reports.

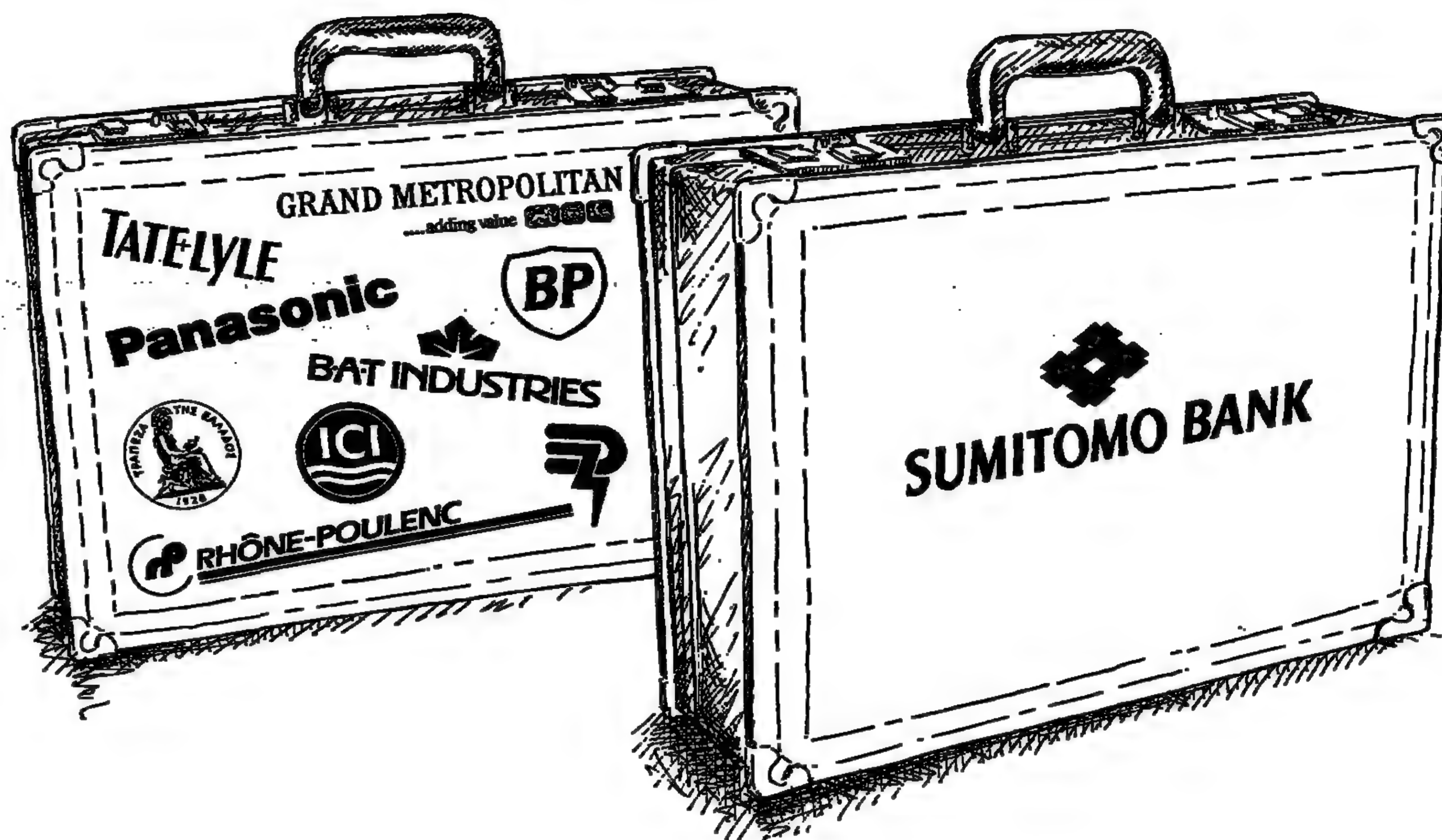
In April, Sungai Besi proposed to take a 26.7 per cent stake in the plantations group and sugar refiner, offering M\$4 (US\$1.5) a share for the 37.4m Tradewinds shares. The tin mining group was to issue 12.5m shares at M\$12 each to buy the stake from Perbadanan

Nasional, the government investment fund that controls Tradewinds.

On June 11 it lowered the proposed price of the shares it would issue to M\$4. The company cited a weaker market price of its shares, but also blamed a predicted level of 1990 earnings and net assets which were carried in a circular issued in December 1989.

The exchange said that Sungai Besi's actions were misleading to the public. Sungai Besi shares have fallen sharply from M\$12.50 since the offer, closing yesterday at M\$5.70.

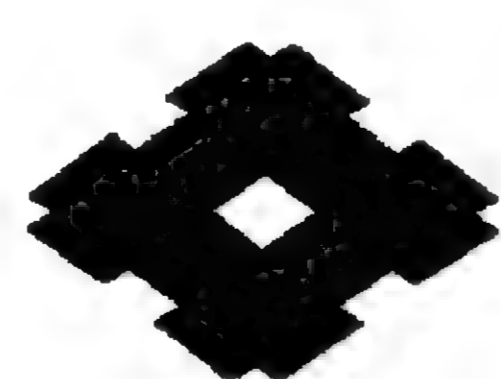
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INTERNATIONAL CAPITAL MARKETS

UK groups save costs with equity-linked deals

By Tracy Corrigan

TWO UK companies brought equity-linked offerings yesterday which allowed them to achieve substantial cost savings, while enhancing their balance sheets.

Lombor, the UK conglomerate, launched an issue of dollar-denominated bonds with equity warrants attached, the first time a UK company has used such a structure since the 1987, according to lead manager Nomura International.

Rio Circle, the UK cement and home products group, brought a \$30m issue of convertible capital bonds which will fund its acquisition of 50 per cent of Aalborg Portland, the Danish cement manufacturer. Baring Brothers launched the issue.

The Lombor issue is expected to total about \$180m, with warrants exercisable at 31.1m shares at a premium of about 15 per cent. Terms of the issue will be fixed on or before July 10. The exercise premium is indicated at 15 per cent. Dealers said there was a lack of benchmark issues with which to compare the pricing, but it appeared fair.

Lombor will keep the funds in dollars, to finance its dollar liabilities. The company, which also has dollar assets, is expected to achieve an all-in cost of funds just over 7 per cent, substantially lower than could have been achieved even in the sterling equity-linked market. When the warrants are exercised, the company's debt-equity ratio will also be enhanced.

The dollar-denominated issue was broadly distributed, with as much as 70 per cent of the paper placed outside the UK. European corporates were

said to be buying the ex-warrant paper for asset-swapping. However, UK institutions would have taken a greater proportion of a sterling issue, dealers said.

The issue was bid at 99 1/4, from an issue price of par, well within full fees of 2 1/2 points.

Nomura said that the departure from the usual London listing, in favour of a Luxembourg listing, allowed the use of a one-warrant-per-bond formula, instead of one-warrant-per-share.

INTERNATIONAL BONDS

per-share, which should enhance the liquidity of the issue.

Meanwhile, Rio Circle followed in the path of other UK companies such as British Airways and Sainsbury, when it issued convertible capital bonds. The \$30m issue of 10 1/2 per cent convertible bonds was launched by Baring Brothers. The bonds are convertible into ordinary shares of Rio Circle at 270 pence per share, a premium of 9 1/2 per cent above the mid-price at 12.30 yesterday of 246 pence. There is no put option for investors.

The issue represents attractive funding which covers most of Rio Circle's \$92.8m acquisition. Its existing long-dated debt, a \$150m issue of 10 1/2 per cent bonds due 2015, is currently yielding about 12 1/2 per cent, while the new Rio Circle issue yields around 10 1/2 per cent.

Unlike ordinary convertible bonds, which count as debt until the conversion takes place, capital bonds are immediately classified as equity and so

can be listed under capital on the balance sheet. For investors, the bonds rank behind debt but in front of equity, but most investors are likely to convert the bonds into equity, so this is not an important factor.

This issue too met broad demand from continental as well as UK investors. The issue was bid at its issue price of par, although it had traded higher earlier in the day, before the size of the offering was increased to \$30m from an initial \$70m.

In the fixed-rate dollar sector, Toyota Motor Credit Corp brought a \$250m issue of unswapped Eurobonds. UBS Phillips & Drew was the lead manager of the 9 per cent three-year Eurobonds, launched at a yield spread of 35 basis points above the three-year US Treasury.

The bonds' triple-A rating ensured solid demand from continental retail investors in particular, helped by heavy recent redemption of corporate bonds in the sector. The deal outperformed Ford Motor Credit's three-year issue launched on Friday at a spread of 50 basis points above the comparable US Treasury.

In the Lira market, the European Investment Bank brought a L250bn issue of callable bonds due 2000, via Istituto Bancario San Paolo.

THE Chicago Mercantile Exchange suffered a 27.3 per cent decline in overall volume last month. June overall volume was 7.78m contracts traded compared with 10.71m a year ago.

The CME said volume records were set in June 1989, helped by an additional business day.

NEW INTERNATIONAL BOND ISSUE

| Borrower | Amount m. | Coupon % | Price | Maturity | Fees | Bond number |
|--------------------------|-----------|----------|---------|----------|-------|-----------------------------|
| US DOLLARS | | | | | | |
| Toyota Motor Credit Corp | 250 | 9 | 101 1/2 | 1993 | 1 1/4 | Nikko Secs (Europe) |
| Lombor Finance | 180 | 9 1/4 | 100 | 1994 | 2 1/4 | UBS Phillips & Drew |
| EURO DOLLARS | | | | | | |
| UBS Finance | 75 | 14 1/2 | 101 1/2 | 1994 | 1 1/4 | Dresdner Bank AG |
| STERLING | | | | | | |
| Blue Circle Ind. Capital | 50 | 10 1/2 | 100 | 2005 | 2 1/2 | Baring Brothers & Co |
| EURO POUNDS | | | | | | |
| European Investment Bank | 250 | (c) | 100 | 2000 | 70bp | Isl. Bank San. Paolo Torino |

Final terms, floating rate note, with equity warrants. (c) Convertible. (d) Deal sold on fixed price basis at 100.325. (e) Giving a short first coupon to Dec 21, 1990. Bonds pay a semi-annual coupon. (f) 11 1/2 per cent for period to 6.251 for remaining 11 1/2 per cent.

Third World increasingly hedges its bets

Stephen Fidler on growing use of risk management among less developed countries

The use of derivative markets - futures, options and swaps - to manage financial risks in developing countries is growing.

About 28 per cent of the funds raised last year in the international capital markets by 16 developing countries, as diverse as Namibia and Turkey, incorporated some form of risk management, according to a survey of published information by the World Bank.

This compares with 10 per cent a year earlier. This is equivalent to some \$3.75bn last year and \$1.82bn the year before.

For example, a \$100m loan which Algeria arranged last year through Chase Investment Bank carried an interest rate linked to the price of oil. If oil prices rose, Algeria would pay a higher interest rate than its increased revenues. Banks would also be compensated with an increased margin if oil prices fell. That increment would not increase Algeria's interest bill, however, because of the use of options technology. Despite the attractiveness of the idea, the credit was not particularly well received, when syndicated among international banks.

Whether this was due to credit worries about Algeria or suspicion of the innovation is not clear. These figures significantly underestimate the hedging activities by all developing countries. Probably the most technically advanced and active is Chile. Chile has led the way both in techniques to reduce its heavy foreign debt burden, such as debt-equity swaps, and in methods of reducing its exposure to adverse movements in interest rates. It began slowly to use the futures markets about three years ago.

According to Mr Christian Salinas of the Central Bank of Chile, Chile regularly has \$12bn of exposure on the Chicago Mercantile Exchange's Eurodollar futures contract. With more than \$600m of outstanding contracts in Eurodollar futures, that is a modest amount. But it hedges interest rates on one-quarter of the country's roughly \$150m in foreign debt.

According to Mr Salinas, of the Government's \$168m-\$170m of external debt, the central bank is concerned most with

EXTERNAL RISK MANAGEMENT IN DEVELOPING COUNTRIES (\$bn)

| | 1988 | 1989 |
|---------------------------|-------|-------|
| Currency options/swaps | 1.230 | 2.190 |
| Interest swaps | 0.262 | 0.391 |
| Interest caps | 0.051 | 0.140 |
| Commodity-linked facility | - | 0.310 |
| Other* | 0.280 | 0.725 |
| Total | 1.823 | 3.758 |

* Includes floating-rate CDs, FRBs and notes with put and call options.

Source: World Bank review of published sources.

the 80 per cent - a \$130m-\$140m - contracted at floating interest rates. However, some of this has a natural hedge - the \$30m-\$40m of Chilean reserves which are also invested in floating rates, leaving unhedged liabilities of about \$90m. Of this, just over \$50m is denominated in dollars.

The central bank has decided that about half of this should be left unhedged - allowing it to benefit from any falls in US dollar interest rates. For the remaining \$40m, "our main objective is to reduce the risk of interest rate fluctua-

not sell all 400 on one day, a tactic that would lead to a concentration of risk on a particular date. Instead, they are sold at regular intervals over the previous six months allowing a more stable average interest rate to be achieved and fixed in advance.

"We lock into rates that are comfortable to us and that we know we can afford without disrupting any major economic goals. It's not the point to get a rate below market levels," Chile is comfortable at present with rates between 7% and 9 per cent, but there is not

Probably the most technically advanced and most active is Chile. Chile has led the way both in techniques to reduce its heavy foreign debt burden, such as debt-equity swaps, and in methods of reducing its exposure to adverse movements in interest rates. It began slowly to use the futures markets about three years ago

much rather than to obtain the lowest possible interest rate in the market.

Chile faces a number of technical problems in hedging this risk. Agreements with bank creditors base the interest rates it pays on one-year London inter-bank offered rates rather than the three-month Libor to which the Chicago contract relates. Furthermore, the interest rates on the loans are overwhelmingly reset in the first half of the year; almost 70 per cent in the first quarter.

To hedge one-year Libor using the three-month contract, the central bank sells four times the number of contracts. To hedge \$100m of debt, therefore, 400 of the \$1m contracts must be sold. But it does

underlying position that needs to be hedged, as has happened in Chile's case.

The central bank deals through brokers anonymously. Dealers on the other side of the trade neither know with whom they are trading nor care very much because they know that the clearing house is guaranteeing settlement.

This is in contrast with the swaps market - traded by telephone or over-the-counter - where there is no daily marking to market of prices, no margins and no clearing house to comfort a counterparty.

Work is being done in some quarters, including the World Bank, to develop a daily marking-to-market but it may prove expensive. Ironically, the only credit

ingly dollar-denominated debt burden. It is also examining the use of interest rate and currency swaps, allowing it to hedge financial risk out to five years, rather than only over the short-term as allowed by the futures markets.

But these instruments bring their own problems. Using caps usually requires the payment of significant premiums up front - difficult when a country is suffering debt service problems.

Swaps present special problems for highly-indebted countries, arising from the swap market's high sensitivity to credit risk.

This sensitivity is not evident in the futures or options markets based on established exchanges once a Government has established credit lines with the relevant brokerage houses - something that would be easier for Chile than for countries with a more erratic debt repayment record.

Exposures are marked to market daily and margin payments adjusted accordingly. Limits on positions in futures markets can be lifted when there is an

problems so far to have come to light involving the use by developing countries of the swaps market have hurt the countries themselves, rather than the counterparty. Both Portugal and Hungary were counterparties to Drexel Burnham Lambert, the US securities firm that collapsed earlier this year, the former in a gold swap and the latter in an interest rate swap. According to Hungarian officials, the problem has been resolved.

However, expertise in the complex world of financial derivatives is not inbred. The experience the Chilean central bank has developed has come from two sources.

There were the World Bank, whose own treasury team pioneered the use of the swaps market and which is now making its expertise available to developing countries, and Codelco, the Chilean copper concern with long experience in the commodities futures market and also in interest rate futures. A lack of depth of expertise is also sometimes worrying; central bank experts are often poached by the higher-paying private sector.

The World Bank is now advising 15 countries on the use of derivative markets, and there are possibilities that its programme will be extended.

Other developing countries have long experience in commodity derivatives markets. A few - for example, the Ivory Coast which has an arrangement with Philip Brothers, the US commodity brokers - are making use of a growing market in commodity swaps to hedge their exposure to commodity price swings.

As summarised by the International Monetary Fund in a study, *Managing Financial Risks in Developing Countries*, there are three main constraints on the use of derivatives for hedging financial risk: cost, creditworthiness and complexity.

The fund acknowledges a further problem: designing control mechanisms that limit the activities of risk managers to legitimate hedging operations. "Recent experience in some financial firms has shown that potentially large trading losses are possible if internal controls are inadequate."

LONDON MARKET STATISTICS

RISES AND FALLS YESTERDAY

| | Rises | Falls | Same |
|--|-------|-------|-------|
| British Funds | 9 | 69 | 5 |
| Corporations, Dominion and Foreign Bonds | 311 | 341 | 218 |
| Industrial | 120 | 152 | 465 |
| Financial and Properties | 15 | 27 | 46 |
| Plantations | 28 | 31 | 106 |
| Mines | 44 | 57 | 137 |
| Others | 28 | 31 | 106 |
| Totals | 527 | 684 | 1,722 |

LONDON RECENT ISSUES

| Issue | Amount | Price | Yield | Rating | Underwriter |
|------------------|--------|---------|--------|--------|-------------|
| British Steel | 100 | 101 1/2 | 10 1/2 | A | Barings |
| British Telecom | 100 | 101 1/2 | 10 1/2 | A | Barings |
| British Airways | 100 | 101 1/2 | 10 1/2 | A | Barings |
| British Gas | 100 | 101 1/2 | 10 1/2 | A | Barings |
| British Electric | 100 | 101 1/2 | 10 1/2 | A | Barings |
| British Airways | 100 | 101 1/2 | 10 1/2 | A | Barings |
| British Airways | 100 | 101 1/2 | 10 1/2 | A | Barings |
| British Airways | 100 | 101 1/2 | 10 1/2 | A | Barings |
| British Airways | 100 | 101 1/2 | 10 1/2 | A | Barings |
| British Airways | 100 | 101 1/2 | 10 1/2 | A | Barings |

FIXED INTEREST STOCKS

| Issue | Amount | Price | Yield | Rating | Underwriter |
|------------------|--------|---------|--------|--------|-------------|
| British Steel | 100 | 101 1/2 | 10 1/2 | A | Barings |
| British Telecom | 100 | 101 1/2 | 10 1/2 | A | Barings |
| British Airways | 100 | 101 1/2 | 10 1/2 | A | Barings |
| British Gas | 100 | 101 1/2 | 10 1/2 | A | Barings |
| British Electric | 100 | 101 1/2 | 10 1/2 | A | Barings |
| British Airways | 100 | 101 1/2 | 10 1/2 | A | Barings |
| British Airways | 100 | 101 1/2 | 10 1/2 | A | Barings |
| British Airways | 100 | 101 1/2 | 10 1/2 | A | Barings |
| British Airways | 100 | 101 1/2 | 10 1/2 | A | Barings |
| British Airways | 100 | 101 1/2 | 10 1/2 | A | Barings |

RIGHTS OFFERS

| Issue | Amount | Price | Yield | Rating | Underwriter |
|------------------|--------|---------|--------|--------|-------------|
| British Steel | 100 | 101 1/2 | 10 1/2 | A | Barings |
| British Telecom | 100 | 101 1/2 | 10 1/2 | A | Barings |
| British Airways | 100 | 101 1/2 | 10 1/2 | A | Barings |
| British Gas | 100 | 101 1/2 | 10 1/2 | A | Barings |
| British Electric | 100 | 101 1/2 | 10 1/2 | A | Barings |
| British Airways | 100 | 101 1/2 | 10 1/2 | A | Barings |
| British Airways | 100 | 101 1/2 | 10 1/2 | A | Barings |
| British Airways | 100 | 101 1/2 | 10 1/2 | A | Barings |
| British Airways | 100 | 101 1/2 | 10 1/2 | A | Barings |
| British Airways | 100 | 101 1/2 | 10 1/2 | A | Barings |

TRADITIONAL OPTIONS

| Issue | Amount | Price | Yield | Rating | Underwriter |
|------------------|--------|---------|--------|--------|-------------|
| British Steel | 100 | 101 1/2 | 10 1/2 | A | Barings |
| British Telecom | 100 | 101 1/2 | 10 1/2 | A | Barings |
| British Airways | 100 | 101 1/2 | 10 1/2 | A | Barings |
| British Gas | 100 | 101 1/2 | 10 1/2 | A | Barings |
| British Electric | 100 | 101 1/2 | 10 1/2 | A | Barings |
| British Airways | 100 | 101 1/2 | 10 1/2 | A | Barings |
| British Airways | 100 | 101 1/2 | 10 1/2 | A | Barings |
| British Airways | 100 | 101 1/2 | 10 1/2 | A | Barings |
| British Airways | 100 | 101 1/2 | 10 1/2 | A | Barings |
| British Airways | 100 | 101 1/2 | 10 1/2 | A | Barings |

LONDON TRADED OPTIONS

LONDON'S derivative markets

were thinly traded yesterday as the stock market spent most of the session trapped in a tight range waiting for fresh direction. The September FT-SE 100 futures index expired last night despite a narrowing in its lead over the cash FT-SE index. The futures market advanced during the morning as sterling strengthened on renewed hopes about entry into the exchange rate mechanism of the European Monetary System. However, the gains were given up when gilt futures began to ease later in the day. September closed at 2,434.

down 7 points on the day, having traded 3,427 contracts. The premium over the cash index closed at 64 points, compared with 70 in the previous session. According to Barclays de Zoete Wedd's calculation of fair value, the premium should stand at 55 points. Turnover in the traded options market rose from Monday's depressed levels. However, business still remained too low to keep brokers occupied or to cover overheads.

The number of options contracts traded stood at 26,903 compared with 13,241. Yesterday's total was made up of 16,850 calls and 10,053 puts.

The lack of volatility on the stock market did not encourage investors to trade FT-SE index options. Only 3,481 of the US-style FT-SE options changed hands, barely more than Monday. On a normal day the FT-SE options would account for about 25 per cent of all business but yesterday it took just 13. The busiest series was the July 2,400 calls, which traded 913 contracts.

Among stock options, volume was highest for British Telecom, the busiest option, traded a total of 2,124 lots, as the underlying stock was heavily dealt. BT shares closed 7 higher at 309p as 14m changed hands.

CALLS

| Option | Settle | Open | High | Low | Close |
|-----------|--------|------|------|------|-------|
| FT-SE 100 | 2434 | 2434 | 2434 | 2434 | 2434 |
| FT-SE 100 | 2434 | 2434 | 2434 | 2434 | 2434 |
| FT-SE 100 | 2434 | 2434 | 2434 | 2434 | 2434 |
| FT-SE 100 | 2434 | 2434 | 2434 | 2434 | 2434 |
| FT-SE 100 | 2434 | 2434 | 2434 | 2434 | 2434 |

PUTS

| Option | Settle | Open | High | Low | Close |
|-----------|--------|------|------|------|-------|
| FT-SE 100 | 2434 | 2434 | 2434 | 2434 | 2434 |
| FT-SE 100 | 2434 | 2434 | 2434 | 2434 | 2434 |
| FT-SE 100 | 2434 | 2434 | 2434 | 2434 | 2434 |
| FT-SE 100 | 2434 | 2434 | 2434 | 2434 | 2434 |
| FT-SE 100 | 2434 | 2434 | 2434 | 2434 | 2434 |

STOCKS

| Stock | Settle | Open | High | Low | Close |
|------------------|---------|---------|---------|---------|---------|
| British Steel | 101 1/2 | 101 1/2 | 101 1/2 | 101 1/2 | 101 1/2 |
| British Telecom | 101 1/2 | 101 1/2 | 101 1/2 | 101 1/2 | 101 1/2 |
| British Airways | 101 1/2 | 101 1/2 | 101 1/2 | 101 1/2 | 101 1/2 |
| British Gas | 101 1/2 | 101 1/2 | 101 1/2 | 101 1/2 | 101 1/2 |
| British Electric | 101 1/2 | 101 1/2 | 101 1/2 | 101 1/2 | 101 1/2 |

BONDS

| Bond | Settle | Open | High | Low | Close |
|------------------|---------|---------|---------|---------|---------|
| British Steel | 101 1/2 | 101 1/2 | 101 1/2 | 101 1/2 | 101 1/2 |
| British Telecom | 101 1/2 | 101 1/2 | 101 1/2 | 101 1/2 | 101 1/2 |
| British Airways | 101 1/2 | 101 1/2 | 101 1/2 | 101 1/2 | 101 1/2 |
| British Gas | 101 1/2 | 101 1/2 | 101 1/2 | 101 1/2 | 101 1/2 |
| British Electric | 101 1/2 | 101 1/2 | 101 1/2 | 101 1/2 | 101 1/2 |

CURRENCY

| Currency | Settle | Open | High | Low | Close |
|------------------|---------|---------|---------|---------|---------|
| British Steel | 101 1/2 | 101 1/2 | 101 1/2 | 101 1/2 | 101 1/2 |
| British Telecom | 101 1/2 | 101 1/2 | 101 1/2 | 101 1/2 | 101 1/2 |
| British Airways | 101 1/2 | 101 1/2 | 101 1/2 | 101 1/2 | 101 1/2 |
| British Gas | 101 1/2 | 101 1/2 | 101 1/2 | 101 1/2 | 101 1/2 |
| British Electric | 101 1/2 | 101 1/2 | 101 1/2 | 101 1/2 | 101 1/2 |

COMMODITIES

| Commodity | Settle | Open | High | Low | Close |
|------------------|---------|---------|---------|---------|---------|
| British Steel | 101 1/2 | 101 1/2 | 101 1/2 | 101 1/2 | 101 1/2 |
| British Telecom | 101 1/2 | 101 1/2 | 101 1/2 | 101 1/2 | 101 1/2 |
| British Airways | 101 1/2 | 101 1/2 | 101 1/2 | 101 1/2 | 101 1/2 |
| British Gas | 101 1/2 | 101 1/2 | 101 1/2 | 101 1/2 | 101 1/2 |
| British Electric | 101 1/2 | 101 1/2 | 101 1/2 | 101 1/2 | 101 1/2 |

UK COMPANY NEWS

Investments at £597m with existing companies performing strongly
3i drops as debt provisions double

By Charles Batchelor

BRITAIN's largest venture capital group, 3i, experienced a sharp fall in its total after-tax returns in 1989-90 and was forced to double its provisions for bad debts as a result of what it called "the first serious test of the enterprise economy."

In spite of these setbacks Mr David Marlowe, chief executive, said he was confident about the state of the UK economy while 3i's expansion in continental Europe and Japan had given the company a significant presence overseas.

The profit performance of the companies in 3i's portfolio

was strong and the quality of management much improved. Investments by 3i rose from £568m to a record level of £597m in the year ended March 31. In addition, although 3i funds most investments from cash flow, it had raised £1.1bn of three and seven-year loan finance to fund future growth.

The company doubled its net provisions to £29m but said this increase was more than offset by the rise in capital profits on the realisation of investments from £142m in 1988-89 to £212m last year.

The total return after tax fell from £32m to £41m - the low-

est figure for at least five years. This figure comprised changes in the value of its portfolio and revenue and capital profits.

The main reason for the fall was the decline in stock market prices - of about 13 per cent in the year - and the corresponding downward valuation of 3i's unquoted investments which account for 75 per cent of its portfolio.

This drop in the total return depressed 3i's five-year compound growth rate of net assets per share, which the company regards as the most important measure of its

long-term performance, to a three-year low of 21.1 per cent against 22.7 per cent in 1988-89. Pre-tax profits were little changed at £156.8m, compared with £156.6m the year before.

3i invested in 1,026 companies in 1989-90, compared with 880 the year before. It spent £145m on 116 management buy-outs (£181m in 106 buy-outs the year before) reflecting the decline in the numbers of very large, highly-leveraged buy-outs. It invested £88m on 302 start-ups, £97m on 64 management buy-ins, and £29m in 544 growth capital deals.

See Lex

Sears urges caution over prospects of early upturn

By Maggie Urry

SEARS, the footwear and clothing retailer, warned yesterday that trading had been weaker since early May.

On May 10 the group announced annual results and said that first quarter trading had been encouraging.

But Mr Geoffrey Maitland Smith, chairman, told shareholders at yesterday's annual meeting that since then "trading has been weaker across several sectors of the group whilst cost pressures have continued to increase. Therefore, I must continue to urge caution regarding any expectation of an early upturn."

Sears shares fell 3p to 88p yesterday.

The new follows last week's warning from Burton Group, the fashion and department store retailer, that sales had weakened considerably in recent weeks. Burton shares fell another 10p yesterday to close at 107p, down from 164p on the morning of the trading warning.

CH Industrials dips 25% as car parts demand falls

By Jane Fuller

A SLUMP since Christmas in demand for car parts and lorry cabs hit profits at CH Industrials, adding to the difficulties already experienced on the household goods side.

The industrial holding group saw pre-tax profits fall by 25 per cent from £15.34m to £11.55m in the year to March 31 1990 on sales ahead to £215.8m (£191m).

Action taken to cut out loss-making businesses included selling furniture operations and closing three factories.

Mr Tim Hearley, chairman, said the total number of people employed by the group had dropped from 4,500 to 3,600 following the closures and disposals. About half the reduction represented redundancies.

The costs of these actions were included in extraordinary charges of £9.62m.

In the automotive and mass transport division, operating profit fell to £2.52m (£5.65m). Body and trim component businesses had suffered from sharp reductions in demand from car makers in the final quarter.

A strike at Ford had also affected the sunroof operation. Mr Hearley said sales volume fell initially by 20 per cent and had levelled off at 15 per cent down.

The one bright spot was the rail division, which had won a £54m contract for refurbishing London Underground trains.

In vehicle body engineering, where Motor Panels in the US was added to the Coventry operation, an operating profit of £5.47m (£1.62m) was made on sales of £51.3m.



Tim Hearley: action taken to cut loss-making businesses

(£19.46m). Motor Panels (Coventry) contributed for a full year instead of just over six months.

The UK business was hit by a 30 per cent fall in demand from commercial vehicle makers. This was partly offset by increased production of body panels for the new Land Rover Discovery.

Motor Panels Inc exceeded the profit estimated when the £7.5m purchase was made last August.

In office and household products, which saw much of the disposal and closure activity, profit fell to £3.87m (£7.35m) on sales of £78.17m (£86.17m).

Apart from the severe downturn in flooring accessories and a slack market for shop fittings, the office furniture business was hit by a serious fire at the Bristol factory early in the year.

Property investments and associates contributed about £1.7m more than in the previous year.

Interest charges increased to £4.89m (£3.18m). Mr Hearley said gearing had reached 100 per cent. It had been envisaged that it would rise only to 70 per cent after the US acquisition, but the extraordinary costs and a reduction in net assets had pushed it higher.

It was hoped further disposals would raise about £20m.

Fully diluted earnings per share fell to 9.88p (16.53p). A final dividend of 3.625p makes a total of 5.025p (4.875p) for the year.

COMMENT

CH Industrials is operating in two depressed areas with little hope of much improvement this year: UK-based vehicle makers and accessories for the UK building industry. It has, however, taken considerable steps to staunch losses, and it will hope that this year does not see another factory fire, or prolonged strike at a big motor customer. A question mark hangs over its aim of reducing gearing to less than 50 per cent, particularly over how promptly it can make the necessary sales. Candidates include some of its investments and businesses on the consumer, rather than the engineering side. A forecast pre-tax profit of £18m, which sounds a bit optimistic, gives a prospective multiple of seven. There seems little room for improvement in such tough trading times and while gearing remains so high.

DIVIDENDS ANNOUNCED

| | Current payment | Date of payment | Corresponding dividend | Total for year | Total last year |
|-----------------|-----------------|-----------------|------------------------|----------------|-----------------|
| Assoc Bri Eng | 0.1 | - | 0.08 | 0.1 | 0.08 |
| Baker Harris | 2.25 | - | 4 | 4.5 | 7 |
| Brinsford Hill | 5 | Oct 1 | 5 | 5.5 | 8 |
| Bucknell Autos | 3.5 | Oct 1 | 2.8 | 4.8 | 3.9 |
| CH Industrials | 3.025 | Sept 26 | 3.025 | 5.025 | 4.875 |
| Dixie (James) | 1.0125 | July 31 | nil | 1.0125 | nil |
| Farnpark 5 | 4.05 | Oct 1 | 1.575 | 5.625 | 1.575 |
| GEC | 0.7 | Oct 1 | 5.65 | 9.25 | 7.8 |
| Grand Central | 0.05 | Aug 30 | 0.05 | 1 | 1 |
| Harris (Philip) | 3.75 | Sept 3 | 3.5 | 5.75 | 5.5 |
| Jury's Hotel | 3.4 | Sept 1 | 2.9 | 6 | 4.5 |
| Newman Trucks | 3.87 | Aug 16 | 3.8 | 7.67 | 9.3 |
| HMIC | 2.3 | Oct 2 | 2.3 | 3.55 | 3.3 |
| Partridge Arts | 2 | Sept 2 | 0.75 | 2.75 | 0.75 |
| Pope 5 | 4 | Oct 1 | 4 | 8.5 | 6 |
| Reed Exec | 0.6 | Oct 5 | 1.4 | 2 | 2 |

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. \$USM stock. ‡Irish currency.

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(Incorporated in England and Wales under the Companies Act 1985 with Registered No. 94238)

Issue of 8,893,029 Warrants to subscribe for ordinary shares of 20p each in the Company ("the Warrants")

Details of the Warrants will be available in the new issue cards circulated in the statistical service of Eitel Financial Limited. Copies of the Listing Particulars relating to the proposed subscription for new Ordinary Shares and Warrant Issue have been published and will be available in the statistical service of Eitel Financial Limited. Copies may be obtained during usual business hours up to and including 6th July 1990 from the Company Announcements Office at 46-50 Finsbury Square, London EC2A 1DD and during usual business hours on any weekday (Saturdays and public holidays excepted) up to and including 18th July 1990 from:

Bennett & Fountain Group PLC, UBS Phillips & Drew Securities Limited,
Maxmor House, 100 Liverpool Street,
40 Watton Road, London EC2M 2RH
Stratford,
London E15 2ND

4th July 1990

UBS Phillips & Drew Securities Limited is a member of The Securities Association

NEWS IN BRIEF

AMBER DAY: the rights issue in connection with the acquisition of What Everyone Wants Group closed on June 29. Acceptances were received in respect of 24.81m new ordinary shares (94.8 per cent).

ASHLEY GROUP has received acceptances totalling 29.79m shares (94.1 per cent) of the recent rights issue.

ASSOCIATED NURSING SERVICES is acquiring Mobility Plus, of Harrogate, and Power-Tech (UK), of Arundel, for £170,000 and \$60,000 respectively.

BCE: BCE Inc is selling a substantial portion of its holding of common shares in Envor, of Calgary. It will sell 14.85m units, comprising three common shares and two warrants, at an aggregate price of \$7 per unit, reducing holding to 19.5 per cent or less than 1 per cent if the warrants are fully exercised. BCE will still hold redeemable convertible preference shares, representing 33 per cent of the common capital when converted.

BRITISH AEROSPACE Enterprises has established a new subsidiary to purchase the defence products business of Nanoquest, which was previously a subsidiary of Bio-Rad Laboratories of Hercules, Calif. ornis, and formed part of the group acquired by Bio-Rad early in 1989 from Vickers.

CASPER OIL is issuing up to 2.4m shares, 5.7 per cent of the enlarged share capital, and selling half its 70 per cent holding in Caspen Oil Inc to Churchill Technology Inc and Mr Anthony J Carroll, its presi-

dent, in return for \$500,000 and up to 5.13m shares in PRC Technologies Inc (14.3 per cent).

DOMINO PRINTING SCIENCES has purchased a majority stake in SA Alain Young, which distributes Domino's ink jet printers in France, and the whole of SCI du Bel Air, which owns premises leased to SA Alain Young, for FF20m (£2.03m) cash.

EW FACT has agreed with Further Education Group to acquire the goodwill and name of Davies's, the international A Level College founded in 1927. The joint venture partners will operate a tuition college under the name of Davies's College. Both parties will provide a \$50,000 interest free unsecured loan to DCL.

FISONS has agreed with Fujisawa Pharmaceutical to acquire for Y3bn an additional 15 per cent shareholding in their joint venture pharmaceutical company in Japan. Fisons will own 65 per cent.

HOWDEN GROUP's Australian subsidiary has acquired A S Wheeler Pty of Sydney, a manufacturer of light fans, blowers and silencers. The purchase price was A\$1.33m (£829,000) cash.

JOHNSON MATTHEY: Prudential Assurance, Charter Consolidated and Pearl Assurance have exercised share warrants to purchase 3.97m, 1m and 30 ordinary shares respectively at 120p each. Consequently, Charter's interest amounts to 38.05 per cent, Prudential, together with funds managed by it on behalf of clients, to 8.04 per

cent. Cookson Group continues to hold 7.69 per cent and Schroder Investment Management 4.69 per cent.

KALAMAZOO has agreed to sell a surplus playing field situated next to the company's head office in Northfield, Birmingham to Westbury Homes for residential development. The cash consideration of about £1.7m (8.7 per cent of net assets) will be used to reduce group borrowings.

LAPORTE says acceptances of the recent rights offer total 34.45m shares (96.5 per cent). LEICA, the group formed by the merger earlier this year of Cambridge Instruments with Wild Leitz of Switzerland, has sold its industrial metrology technology division to Brown & Sharpe Manufacturing of the US.

LILLEY is paying a maximum £1.53m in shares and loan notes for Piper Commerce and Piper Buildings Hire, and £130,000 in shares for the company which owns Piper group's property. In the year ended March 31 1990 Piper's turnover was £2.4m and pre-tax profit £161,000.

LONREO is acquiring a joint 50 per cent holding in SKIP, a French registered company owned by Sueden Kerry, for some £18.5m. Activities of SKIP include crude oil contracts, retail distribution, storage, and tanker chartering.

MINERALS OIL and Resources: For nine months ended May 3 1990 gross revenue \$351,510 (\$436,515) and pre-tax balance \$203,110 (\$286,554). Earnings per share 41 (42)

cents.

P-E INTERNATIONAL has purchased £1 Noel-Brown, a management consultancy specialising in the healthcare and public sectors, for an initial £1.5m in cash and shares, plus a deferred profit-related maximum \$300,000 in loan stock.

PRINCIPAL HOTELS Group has disposed of its Hotel Ligure, Frejus, France for £2m at a profit of approximately \$650,000. It has also proposed the sale of Douglas Le Mare stockbroking subsidiary to its management for £1.3m, including cash of £1m.

REILANCE SECURITY has bought Dominion Security Systems for £313,453 cash. In 1989 it incurred pre-tax losses of £767,000.

TIME PRODUCTS annual meeting told UK sales in the first four months of the year were ahead of last year. Trading conditions in Hong Kong remained difficult with pressure on margins of watch movement business. Cash and short-term balances have stayed above the £27m year end figure and interest would be a significant contributor to profits.

WICKES announced the sale of Parker Kinsbury, a division of its Hunter Timber subsidiary, to a company formed by management for £4.5m representing net asset value as at June 30. Consideration settled by £2.25m in cash and issue of variable coupon redeemable preference shares.

XTRA-VISION: rights issue accepted in respect of 24.68m shares (94.45 per cent).

CLOSES IN 5 DAYS OFFER CLOSES IN 5 DAYS OFFER CLOSES IN 5

BRITISH
COAL
PENSION
FUNDS

FINAL OFFERS

BY
CITYSTONE ASSETS PLC
FOR

GLOBE INVESTMENT TRUST P.L.C.

205p

ACCEPTANCES TO BE RECEIVED BY NO LATER THAN
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Barclays de Zoete Wedd Securities Limited.

Barclays de Zoete Wedd Securities Limited was instructed on 20th June, 1990 by Citystone to purchase up to 95 million Globe Ordinary shares (17.64 per cent of Globe Ordinary shares) on its behalf for immediate cash settlement. Whilst this order currently remains open, Citystone reserves the right to change it in any way without further announcement.

The issue of this advertisement has been approved by duly authorised committees of the directors of British Coal Staff Superannuation Scheme Trustees Limited ("the Staff Superannuation Scheme Directors") and of the trustees of the Mineworkers' Pension Scheme and of the directors of Citystone. The Staff Superannuation Scheme Directors, the trustees of the Mineworkers' Pension Scheme and the directors of Citystone (all of whose names are given in the Original Offer Document) accept responsibility for the information contained in this advertisement. To the best of the knowledge and belief of the Staff Superannuation Scheme Directors, the trustees of the Mineworkers' Pension Scheme and the directors of Citystone (having taken all reasonable care to ensure that such is the case) the information contained in this advertisement is in accordance with the facts and does not omit anything likely to affect the import of such information.

The issue of this advertisement has been approved by Barclays de Zoete Wedd Limited for the purposes of Section 57 of the Financial Services Act 1986. Barclays de Zoete Wedd Limited is a member of The Securities Association.

CLOSES IN 5 DAYS OFFER CLOSES IN 5 DAYS OFFER CLOSES IN 5

UK COMPANY NEWS

Consumer spending fall reduces Pepe to £10.5m

By Alice Rawsthorn

IN SPITE of the revival of flared jeans Pepe Group, one of Europe's largest jeans and leisure wear companies, saw its pre-tax profits fall from £12.76m to £10.53m in the year to March 31.

Pepe suffered, like so many other clothing companies, from the unstable state of the UK market.

The UK clothing market, which is still the group's biggest single source of sales, has been hit by the impact of high interest rates on consumer spending.

Mr Sydney Neill, group finance director, said the UK jeans market had benefited from the new fashion for flares, but retailers had been cautious in placing orders.

Pepe was forced to increase stocks of its basic denim jeans and had to turn down orders for other types of clothing.

The group managed to offset the downturn in the UK by continued growth in other

countries. Pepe lost money in Scandinavia, but made good progress in France and West Germany. Turnover outside the UK last year provided 66 per cent of overall sales of £136.37m (£97.62m).

Mr Neill said it was still incurring high costs in establishing its international operations. The interest charge rose to £2.38m (£246,000) chiefly because of its investment overseas.

Pepe held operating profits at £13.52m (£13.6m). Tax took £4.32m (£5.02m) at a rate up from 39 to 41 per cent – because of the higher proportion of overseas profits.

Earnings per share fell to 23.4p (31.9p). The directors propose to hold the final dividend at 4p making a total for the year of 5.5p (6p).

Mr Neill said international operations were expected to make "significant progress" this year, but the UK market was still "in the doldrums".

COMMENT

Pepe had taken the precaution of preparing the stock market for its fall in profits so the shares – which have been sliding steadily for the last year or so – were stable at 155p yesterday. Pepe can scarcely be blamed for the problems of the UK clothing market. In the short term it has fared reasonably well at maintaining margins in its principal product of denim jeans. But in the long term it may face a tricky task – as a company which imports almost all its merchandise from the Far East – in adapting to the new retail regime of short-term ordering. In the meantime its international operations seem set for further growth and the City expects profits of £13.7m this year. But the shares can hardly hope for a recovery – from a prospective p/e of 5.5 – while the outlook for the UK is so uncertain.

Australian losses put Grand Central £83,000 into the red

HIT BY losses in Australia, Grand Central Investment Holdings ran up a deficit of £83,000 in 1989, compared with a profit of £2.01m previously. The dividend, however, is being maintained at 1p with a final of 0.65p.

Turnover of this food group with interests in the Far East rose from £20.5m to £23.4m. Losses per share came to 0.5p (earnings 5.1p).

Sales of the food distribution business in Australia increased to £22m; although there was improvement in the second half much of that was negated

by stock write-offs and reorganisation costs. All the Malaysian companies traded profitably, and were expected to show substantial improvements in 1990.

Grand Central also announced it was taking a stake in Sunshine Allied Investments, a Singapore listed manufacturer and distributor of consumer chocolates and other food products.

It already has an option with a major shareholder to acquire 23.2 per cent of the capital at \$84.50 per share, expiring August 31. Now it has agreed

with Elders Finance Asia to buy a total of 24 per cent of the capital through the purchase of 1.33m shares, also at \$84.50, and later by the purchase of a further 1.15m at the same price.

As part of the financing for that investment, Grand Central has issued 1.2m shares at 45p and will later issue a similar tranche at 50p to Levistar Investments, a Hong Kong company controlled by the Mulani family. It felt this association would further strengthen its presence in the region.

Ricardo stake sold by First Technology

By Nikki Tait

FIRST Technology, the safety and sensors company, has sold its entire holding in Ricardo Group, the Sussex-based engines and transmissions designer which merged with SAC International earlier this year.

Mr Fred Westlake, First Technology's chairman, said that the stake had been sold through the stock market and, to the best of his knowledge, had gone to a number of buyers. Ricardo later confirmed this.

Proceeds from the sale of the 2.13m shares amounted to £2.78m, and Dr Westlake said that his company expected to make neither a profit nor loss on the holding.

First Technology bid for Ricardo in early 1989, but after an eventual and hotly-contested battle, only secured 41 per cent of its target.

However, the bidder retained a near-15 per cent interest. If it was harbouring ambitions to return to the fray, these were dealt a blow when the SAC merger was announced in February. The deal ran into some opposition from First Technology, but was finally voted through by shareholders in mid-March.

Bid approach to Hambros Advanced

By Nikki Tait

HAMBROS Advanced Technology Trust, a £24m specialist investment trust, said yesterday that it had "received an approach which may or may not lead to an offer being made for the company".

The announcement was triggered by the recent sharp rise in HATT's share price – which had risen from 91p to 100p in recent days. It closed 15p higher at 115p yesterday.

Top Technology, which manages HATT, declined to elaborate on the nature of the pro-

posals, but said they had "not come out of the blue". The managers added that they did not expect the proposals to lead to any change "from an operational point of view".

They also raised the issue of whether it was desirable for venture capital funds to be listed – suggesting that six-monthly reporting periods made management of such funds difficult. "It's often a case of feast or famine," remarked Top.

Just under half of HATT's shares are owned by Hambros, the merchant banking group, and a further 14.9 per cent by Ikea Holdings, part of the Scandinavian retail group. The Bank of England Pension Fund has another 6.93 per cent.

The trust, which came to the stock market in 1987, has subsequently paid out to shareholders the gains made on its holding in Vodafone. At present, it is still highly liquid – with over 50 per cent of its assets in cash or fixed interest securities.

Over the past 12 months, the trust has traded at a fairly wide discount to underlying net asset value; according to daily figures compiled by Barclays de Zoete Wedd, the average discount over the past year has been about 27 per cent.

Among the trust's largest holdings at present are stakes in Telematics, the US-listed group, and International Colour, a quoted UK company. Top said it hoped that a further announcement could be made in about a week's time.

Birmingham Mint turns in reduced profits of £208,000

By Peter Franklin

BIRMINGHAM MINT, the electronics and engineering group, yesterday reported pre-tax profits of £208,000 for the year to end-March. Turnover amounted to £40.78m.

The outcome compared with profits of £341m from turnover of £43.97m last time but represented an improvement on the losses of £559,000 reported at the halfway stage.

The interim deficit was determined after a provision of £507,000 against a potential loss on an overseas contract – this was subsequently released in January following receipt of funds from the customer concerned – and a provision of £350,000 against stock held by the electrical contacts division.

The sudden plunge into losses at that stage resulted in the resignation of Mr Colin Perry, then executive chairman.

Last year's figures were restated to reflect the one-off gain on the sale of the Wembley factory in March 1988 – taken as an exceptional item of £1.5m – and the prior year element of the provision against stocks of its electrical contacts business which amounted to £210,000, net of related tax credit of £221,000.

A detailed review of this stock as at December 31 1989 has been conducted and directors concluded that a further provision or write-off totalling some £1.5m should be made.

The review indicated that at least £231,000 of this stock write-off related to the previous year, accordingly the group's results for the year to March 1989 have been restated.

Profits at the operating level came to £262,000 (£2.83m) and interest payable amounted to £754,000 (£262,000). Extraordinary debits totalled £2.68m.

Tax took £146,000 (£565,000) and earnings per share came out at 2.5p (20p). A final dividend of 5p is recommended, making 5.5p (8p) for the year.

Mr Tony Cross, chairman, said it was intended to develop the group through two major divisions, International Mining and Specialist Engineering. The companies within these divisions currently appeared to offer the prospect of generating relatively stable profitability in today's difficult trading conditions, he said.

BAT completes sale of Saks Fifth Avenue

By Nikki Tait

BAT Industries, the tobacco-based conglomerate which earlier this year saw off a £13.5bn bid assault from Sir James Goldsmith, announced that it has completed the £1.5bn (£854m) sale of Saks Fifth Avenue to Investcorp, the West German moulded plastic component manufacturer, to Klockner Werke for £155m.

BAT also confirmed it was in negotiations with "several parties" over the disposal of its majority interest in Horten, the West German department store chain. But it declined to comment on whether one of these parties might include Peak & Cloppenburg, the textile group, as rumoured in the German press.

The UK group was still hopeful that the Horten transaction might be agreed this month.

The sale of Horten is the final move in the extensive restructuring package which BAT announced last September in response to the Goldsmith bid threat. This included two demergers and the disposal of retail operations.

Dissident canvasses Chloride shareholders

MR MAURICE Gillibrand, a former research director of Chloride and long-time critic of the batteries group's poor performance, said yesterday that he had sent written proposals for the company to a number of its institutional shareholders, writes Nikki Tait.

Mr Gillibrand is standing –

for the fifth time – for election to the Chloride board at the company's AGM on July 23. The group informed shareholders of this resolution last week, but said that it "remained of the firm opinion... that the election of Mr Gillibrand to the board would not contribute to its effective working."

That prompted Mr Gillibrand to write back to the company, claiming that the charge was "offensive to my professional integrity." He said that the report – prepared after consultation with Sir John Harvey-Jones, the former chairman of ICI – would be available to any shareholder who sought it.

NEWS DIGEST

Philip Harris lifts profits to £1.4m

PHILIP HARRIS Holdings, a supplier of laboratory equipment and operator of retail pharmacies, lifted pre-tax profits from £811,000 to £1.4m in the year to March 31.

Mr John Haller, chairman, said the company aimed to further extend its incursion into the pharmacy market and to address and rationalise the overhead costs of the science and routine international operations.

Turnover increased from £65.5m to £75.6m, generating operating profits of £2.04m (£1.18m). A proposed final dividend of 3.75p brings the total for the year to 5.75p (5.5p). Earnings per 20p share improved to 10.57p (6.94p).

The company also announced an agreement with Cregoe Colmores Estates to jointly market its property at Ludgate Hill in Birmingham City Centre together with the adjoining land fronting Great Charles Street, owned by Cregoe. The net book value of the Philip Harris property is £1.5m, but a substantial premium to this is expected on disposal.

AB Engineering profit at £1.3m

All divisions at Associated British Engineering performed well in the year to March 31.

Improved outlook for James Dickie

On a merger accounting basis to include Goldstar, acquired in March, pre-tax profit of James Dickie came to £38,000 in the half-year ended April 30.

The profit was struck after exceptional redundancy and reorganisation costs of £128,000, and compared with £278,000 in the corresponding period. Turnover of this drop forger and engineer was £13.6m (£7.8m).

The directors said the current position had improved and they were declaring the promised interim dividend of 1.0125p. Order books had recovered and were in a stronger position.

Sharp reversal at J England

J England Group, involved in convenience foods, incurred a deficit of £631,655 in 1989.

The outcome of the Shropshire-based company showed a marked reversal from profits last time of £284,518. Turnover, however, expanded 40 per cent to £4.7m (£3.35m).

Directors blamed the poor result on "production difficulties", a shortage of skilled labour and an "overall lack of management" which delayed rectification of manufacturing problems. These problems had been resolved, they added.

Losses per 5p share worked through at 10.81p (earnings of 4.72p). There is again no dividend; the last payment was in 1982.

Jurys Hotel moves ahead to pass £3m

Reflecting improved trading and higher levels of occupancy, Jurys Hotel Group increased its pre-tax profit from £2.27m to £2.13m, or £2.85m, for the year ended April 30 1990.

Earnings were 12.5p (8.5p) per share and the dividend 5p (4.5p) with a final of 3p. There is an extraordinary provision of £1.07m for deferred tax arising from the significant change in Government policy.

Mr Walter Beatty, chairman, said the group benefited from the high investment of recent years. Trading for the opening two months of this year was ahead, and bookings for the rest of the summer were healthy.

When it comes to results trust us to deliver

| Trading results | 52 weeks to 29/4/90 | 52 weeks to 30/4/89 | Percentage increase |
|-----------------------|---------------------|---------------------|---------------------|
| TURNOVER (£m) | 1,240.1 | 1,028.0 | 21% |
| OPERATING PROFIT (£m) | 210.9 | 159.8 | 32% |
| PRE-TAX PROFIT (£m) | 183.3 | 138.2 | 33% |
| EARNINGS PER SHARE | 28.7p | 23.4p | 23% |
| DIVIDEND PER SHARE | 13.00p | 10.83p | 20% |

SCOTTISH & NEWCASTLE SHAREHOLDERS

SPECIAL DELIVERY

Friendly 1989 RESULTS

"Another year of all-round progress"

PRE-TAX PROFIT UP 59%
BASIC EARNINGS PER SHARE UP 33%
DIVIDENDS UP 24%

| RESULTS IN BRIEF | 1989 | 1988 | 1987 | 1986 | 1985 |
|--------------------|--------|--------|--------|--------|--------|
| TURNOVER | £7,000 | £7,000 | £7,000 | £7,000 | £7,000 |
| PROFIT BEFORE TAX | 2,658 | 2,021 | 1,563 | 6,068 | 1,596 |
| EARNINGS PER SHARE | 5.035 | 3.171 | 2.034 | 781 | 180 |
| DIVIDENDS | 30.0p | 22.6p | 14.9p | 6.2p | 2.2p |
| | 3.35p | 2.7p | 1.8p | 1.2p | 0.7p |

- The expansion of the two core businesses has continued according to plan, so that a total of 17 hotels are now operational and the number of Serviced Offices has increased to 14. Others are in the development stage.
- The New Commonwealth Rooms, now one of London's leading banqueting complexes, achieved record profits and is performing particularly well in the current year to date.
- Trading so far is very satisfactory in 1990 and another year of growth and progress is confidently anticipated.

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For a copy of the latest Report and Accounts please apply to the Secretary, Friendly Hotels PLC, Premier House, 10 Greycoat Place, London SW1P 1SB

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UK COMPANY NEWS: PROFITS OUTLOOK

Consensus is that the worsening economic climate will ultimately hit every company writes Nikki Tait

The heady years are over and the worst is yet to come

WARNINGS of doom and gloom in British balance sheets have become commonplace. But as far as the published numbers are concerned the worst has yet to arrive.

According to analysts at Country NatWest WoodMac, for example, the year-on-year growth in industrial earnings has been declining steadily since 1988. But it may not be until the first half of 1991 - in terms of reported results - that the nadir occurs.

Very broadly, WoodMac calculates that year-on-year industrial earnings growth reached its peak in three of the four quarters in 1988, when it was running at around 22 per cent. At that stage the rate of improvement in reported profits was easily outstripping the rate of dividend growth; the latter figure stood at only 15-18 per cent.

The fall-off in the rate of earnings growth first became noticeable towards the latter half of 1989, and by March 1990 - the point at which the calcu-

der 1989 profit figures were showing through - the year-on-year rise was down to 17 per cent. By June the figure had fallen to 13 per cent.

Dividends, on the other hand, proved more resilient, with the average industrial company still increasing its annual payout by around 20 per cent in the March figures, and by around 17 per cent in the end-June statistics.

These relatively healthy gains may seem curious, juxtaposed against the headline warnings in the financial press. Time-lags are obviously a large part of the explanation. A hike in interest rates may have an immediate impact on those companies with high debt, but the squeeze on consumer demand, and then on investment demand, takes longer to work through. A second lag occurs before results are published reflecting such problems.

Certainly - in spite of three warnings of tough times ahead - there has been a fairly

steady stream of major companies with March year-end reporting double-digit profits growth for 1989/90. Recent examples have even extended to some of the most vulnerable sectors, such as retailing - companies like Boots or Marks and Spencer.

If analysts' predictions are correct this scenario is about to change. WoodMac suggests that by September (when the effect of June year-end starts to tell), year-on-year industrial earnings growth could be down to 11 per cent.

By December a figure of only 9 per cent is predicted. And by the first half of 1991 the analysts suggest that reported industrial earnings could be showing an improvement of just 5 or 6 per cent.

These sort of forecasts command fairly broad agreement. SG Warburg, for example, predicts that growth in 1990 overall might run out at 5 per cent or less, with only a very modest upturn in the following year.

Neil McKinnon, at Yamaichi, suggests that the corporate sector would be "very lucky" to still be showing double-digit earnings growth by the time the 1990 June year-end figures show through. Like Warburg, he forecasts 5 per cent, year-on-year, for the current calendar year.

Clearly, such "macro" forecasts conceal significant "micro" variations. The most obvious area of difference is sectoral: certain areas have caught the immediate blast of high interest rates and the clamp on consumer demand.

Housebuilding and retailing are two clear leaders; the property sector has not been far behind. By contrast, some analysts expect "defensive" sectors - like food retailing - to continue showing double-figure earnings growth over the next few years.

The pundits also stress the difference between those companies which have a heavy exposure to UK demand and those with a much wider inter-

national spread of activities - the latter providing a far more cheerful picture. In some sectors, a strong overseas bias even combines with defensive merits, making for the best of all worlds. Certain "health and household" companies clearly fall into this category and, to some extent, drinks groups.

By contrast, heavy dependence on the squeezed UK market coupled with exposure to domestic borrowing costs is invariably offered as an explanation for the relatively weak performance of the "small company" sector.

"Small domestic companies are having a very hard time of it," remarks one analyst. "Large companies often have the ability to borrow overseas," comments another, "while small companies have no choice but to use the local bank manager".

If predictions for the trend in corporate profits are correct, a couple of questions present themselves. One unknown is

how the downturn in corporate profits growth may affect dividend declarations.

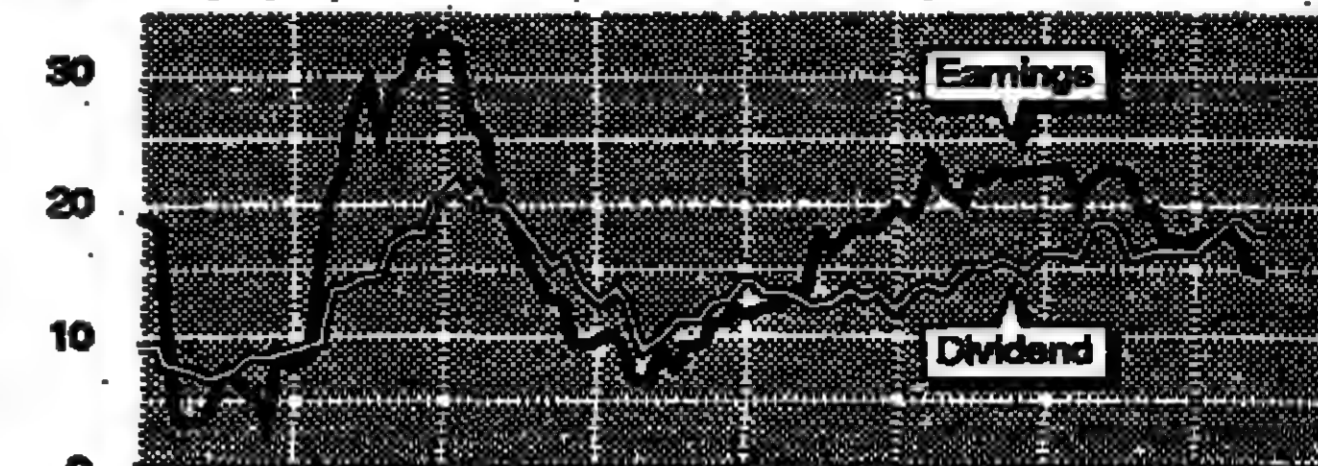
There has been a clear trend among many major companies to reduce dividend cover and let payout increases exceed earnings improvements. That, in turn, causes many analysts to suggest that, even if earnings growth slumps to a low of around 5 per cent, dividend growth may still outstrip this by several percentage points.

The other question is where corporate earnings growth will recover to, assuming that a low point is reached between December, 1990 and June, 1991.

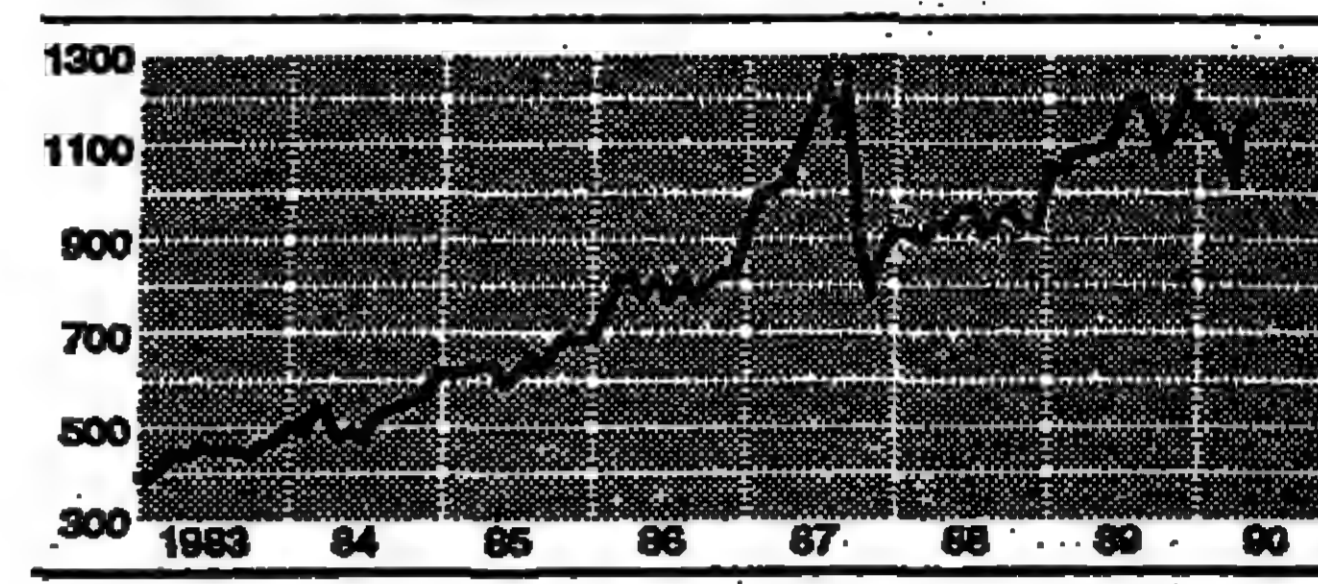
Few City voices are over-optimistic, barring some unexpected boost - such as a shift in raw material costs. Bob Semple at WoodMac suggests that earnings growth might head for 10 per cent next year in 1992. "The 20 per cent days? There's no way we'll be repeating that," he predicts.

FT-Actuaries Industrial Index

Percentage growth



FT-Actuaries All-Share Index



CONGLOMERATES

The conglomerate sector is, by its very nature, heterogeneous. Not surprisingly, then, performance to date has varied considerably between companies.

Williams Holdings, for example, saw earnings growth of just four per cent in 1989. Its consumer products side generally suffered from depressed domestic demand levels, but even here in this division there were some widely differing performances from the various operating businesses.

First quarter figures at BAT Industries were hit by the problems of Eagle Star, its UK insurance subsidiary. This produced a 27 per cent profit fall, although the company talked of "solid progress" in 1990 overall. Hanson, while reporting a 12.7 per cent advance in earnings per share in the six months to end-March, found some of its UK building products subsidiaries - notably London Brick - badly hit by falling demand. And so on.

Accordingly, prospects for the sector are also something of a mixed bag. A number of the Britain's largest and best-known conglomerates - like BTR or Hanson - are still expected to show earnings growth in double figures this year. Some of the remaining "mini-conglomerates", with more exposure to the UK industrial sector, may fare less well.

And, given the acquisitive records of many of these companies, the state of any conglomerate's balance sheet has almost as much bearing on stockmarket sentiment at present as the industrial prospects for its underlying businesses. Most people expect the economic downturn to throw up acquisition opportunities. The question is, who will be able to take advantage?

Nikki Tait

Higher interest rates have had an adverse effect across a broad sweep of industry. FT writers assess the profit outlook for the rest of the year

are looking for partners.

Those involved in the charter business have been worst affected by a 20 per cent downturn in holiday traffic. Carriers in this sector are busy slashing capacity. Many, like Britannia, part of the International Thomson travel group which controls 29 per cent of the UK charter market and handled 7m passengers in 1989, laid off 250 staff.

Airlines are now having to deal with rising costs at the same time as falling demand. Airport landing charges, air traffic control and security fees, fuel costs and growing capital costs caused by high interest rates are all making inroads into margins. Staff costs are also rising.

Carriers throughout the world are reporting slowing profit growth and not even the largest airlines have escaped such problems. In spite of a 40 per cent increase in profits before tax in the year to March, British Airways has recently started making attempts to reduce its cost base.

Looking to the future, analysts believe the revenue generation side of scheduled airlines' business is looking healthy, as long as congestion and air traffic controllers do not put off too many potential passengers. But the City is looking carefully at how the airlines control their cost base.

Paul Abrahams

ENGINEERING

Profits in the general engineering sector are likely to rise about 10 per cent this year, with earnings per share up 6 per cent.

The growth rates will be well down on the heady days of 1989 when pre-tax profits were growing at 22 per cent and earnings per share by 18 per cent, according to Warburg Securities.

The difficulties of the first six months are extending into the second half of the year and soft demand is spreading from consumer related sectors deeper into manufacturing. Yet this generally dull trend will mean some significant differences in performance.

Companies with a low exposure to the UK economy and the automotive sector, such as the Howden Group, the Weir Group and TI, are likely to continue to grow. Others such as Stebe, should continue to deliver strong earnings growth as long as it can improve returns from large foreign acquisitions, while Vickers seems to be avoiding the gloom which has infected the rest of the sector, possibly thanks to its Rolls Royce luxury cars subsidiary.

Meanwhile companies heavily dependent on the automotive sector in the US and the UK are likely to provide disappointing results compared with the buoyancy of last year, while in the longer term defence and aerospace companies will be affected by cuts in defence spending.

However defence profits may start being hit just as the rest of engineering is starting to recover. Although the downturn in the UK is lasting longer than many initially expected, most executives still expect profits to start growing strongly again in 1991.

Charles Leadbeater

MOTOR COMPONENTS

Major players in the automotive components sector have given clear warnings this year that profitability will be under pressure from falling demand in some major markets, as well as high interest rates.

Mr David Lees and Mr Colin Hope, chairmen of GKN and T&N respectively, have each warned of "belt-tightening" ahead as vehicle demand falls in the UK and North America.

However, Mr Bob Golding, senior motor analyst with Warburg Securities, says that "so far there is no evidence of actual margins being squeezed", at least for the larger players.

One reason for this, as acknowledged by Ford in the US, for example, is the more inter-dependent relationship between vehicle and component makers. Ford admits that it has squeezed its suppliers' margins too hard in the past.

"We now recognise that they've got to be healthy as partners", said one senior executive in Ford US purchasing division. "We rely on them, so they've got to have a margin."

Up until early this year, the UK's largest component makers had been making steady financial progress.

Lucas Industries enjoyed 11 per cent growth in earnings per share last year compared with 1989; GKN had 14 per

cent growth and BBA 10 per cent. The fourth large player, T&N, saw its earnings per share fall by 9 per cent - but this was due to continuing provisions T&N is having to make in relation to asbestos health claims.

Mr Golding expects that in the current year GKN's earnings per share will fall by 10 per cent, but T&N by only 2 per cent, while small increases in earnings are expected for BBA and Lucas.

However, the "big four" are by definition among the survivors who have successfully undertaken major restructuring. Many smaller, currently less efficient companies are likely to be confronted by a profits squeeze.

Despite the short-term problems, there are two main factors expected to boost demand in the early to mid-1990s: the Western-led renaissance of a motor industry in Eastern Europe, and the coming on stream of Japanese car "transplants" in the UK, for which, it is now clear, UK component groups are well placed to win substantial orders.

John Griffiths

MOTOR RETAILING

Gloom pervades the automotive distribution and retailing sector. After five years of uninterrupted UK new car market growth, sales have sharply tumbled over the past 10 months and the downturn appears still to be accelerating.

Among the major retailing groups, BSG has underperformed the stock market overall by 31 per cent, its shares dropping from 89p 12 months ago to 58p now.

IC Cowie has underperformed by 62 per cent, its 149p of last year having dropped to 60p. Similar performances have been put in by the Appleby group, Evans Halshaw and similar like players.

Most sector analysts expect a further substantial fall in earnings during the coming year as a result of the trade being hit in several ways by high interest rates. On the one hand, the squeeze has sharply cut new car demand to an estimated level some 15 per cent below that of mid-1989. On the other, most companies in the sector are highly geared, with stockpiles adding to the burden as the August sales boom approaches.

Even the weather has conspired against the sector: the exceptionally mild winter has reduced the need for body repair shops, and vehicle reliability and service intervals are continuing to increase, further reducing cash flow.

Against this background, there is growing concern that the August '89 registration plate sales "blip" will pull down more sales than usual from the final quarter of the year, thus precipitating a potential financial crisis for many in the trade by the end of the year.

John Griffiths

RETAILING

The first profit warning from a leading retailer was that from Dixons in January 1989. Since then it has become almost the fashion for stores groups to warn shareholders that "times are tough" in the high streets.

Particularly badly hit have been retailers of household goods - such as furniture, carpets, washing machines, and do-it-yourself goods - because these are often tied into house purchases and are affected by the slowdown in housing activity.

However, analysts point out that many of the sector's problems are of the stores group own making. Government statistics, although not perhaps reliable, show that consumer spending in shops is holding up better than expected.

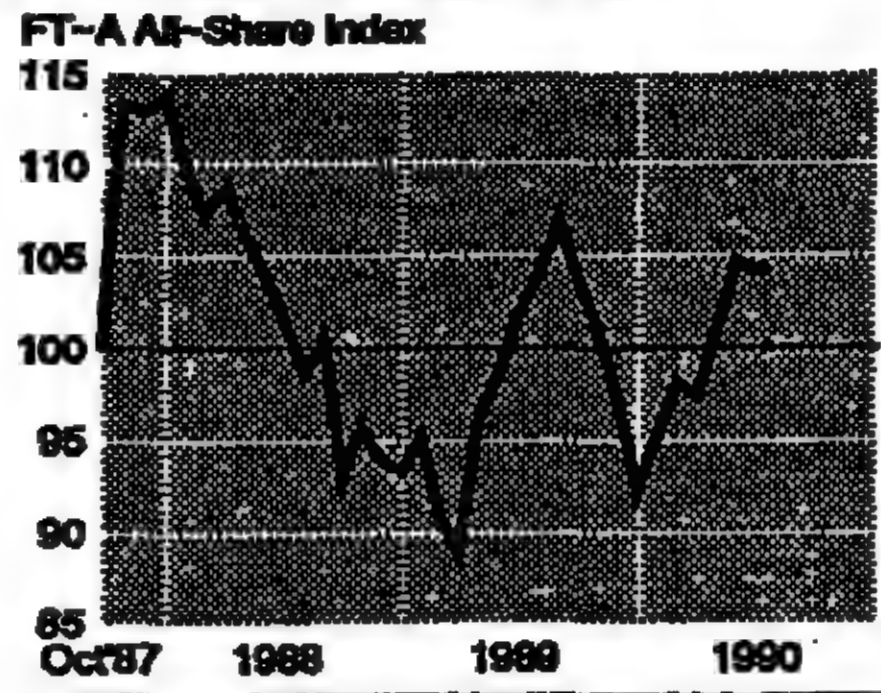
The main problem has come from overcapacity in the industry following rapid expansion in the latter half of the 1980s. This is particularly true in areas such as clothing.

The next few months will sort sheep from goats in the retail sector. While some groups - including Kingfisher, Marks and Spencer, Boots, W H Smith and Katers - are expected to continue increasing profits others are still on the downward path, such as Burton. A third category are those which have suffered profit falls already and are now beginning to recover. These include Storehouse, Laura Ashley, Next, Dixons and Sears.

There may yet be further surprises from the sector, though. Analysts are concerned about related issues such as retail property development which many stores groups have moved into as an

Food Retailing

FT-Actuaries Index relative to the FT-A All-Share Index



adjunct to their mainstream business. Capital values of retail developments are falling in response to difficulties in the sector.

Maggie Urry

CONSTRUCTION

Conditions in the construction sector, battered by the collapse of the housing market last year, appear set to deteriorate as the impact of rising interest rates catches up with the commercial property sector.

Private investment in residential and commercial property was the main driving force behind the big rise in construction and building material profits which occurred in the late 1980s.

Demand for property however has retreated in the face of high interest rates and overbuilding in the commercial sector. Unfortunately the UK, where many British companies have diversified, is also facing a major downturn in construction output - although as might be expected in such a vast country there are pockets of resistance and even growth in some states.

Building material companies with the best prospects are those like Steetley, Redland, EMI, and CRB of Ireland which have invested heavily in continental European countries where construction output over the next two years is forecast to continue to grow, albeit more slowly.

West Germany, after a lacklustre performance for construction investment for much of the 1980s is forecast to increase construction output by 5 per cent this year and 2.5 per cent next year. Only Spain is expected to have a higher growth rate among EC countries.

Construction output in the UK is forecast by the National Economic Development Office to fall by 3.5 per cent this year and by the same amount next year. Most contractors however have sufficient orders to take them through to the end of this year.

Contractors which will suffer most will be those with large borrowings and speculative housing and commercial development businesses. The decline in commercial property values which began in central London is expected to spread slowly to other regions of the country following the recent experience in the residential market.

Increased investment in water, roads and electricity may offset some of the decline but is not coming through as quickly as expected. The next two years, even assuming a modest recovery in housing output next year, are likely to be tough. Profits for many companies will fall and there will be more restructurings.

Andrew Taylor

BREWING

Recent results from the brewery sector were generally in line with expectations and the more confident trading statements that accompanied most of them suggest the market will continue to withstand the squeeze on consumer spending.

First quarter beer production figures, according to the Brewers' Society, showed relatively stable demand.

Only the southern regional brewers, such as Eldridge Pope and JA Devanish, appear to be finding the going particularly tough.

The performance of the major brewers earned consistently high marks from analysts. Grand Metropolitan, with interim pre-tax profits up 26 per cent to £408m, met the most optimistic forecasts and full year estimates were raised to £925m.

Guinness, now bound in a stronger relationship with LVMH of France, appears ready to exploit the opportunities this affords. Profits are expected to rise

to £860m this year, and top £1bn in 1991.

Bass, the UK's biggest brewer, though hit by sharply higher interest charges in the first half, increased brewing profits by 27 per cent. With an encouraging first year from its US Holiday Inns acquisition, it seems set for full year profits of £550m against £465m last year.

Whitbread, reorganised to meet the demands of the Monopolies Commission conditions, is confidently predicted to increase earnings per share this year by 19 per cent, and by another 15 per cent next year.

Allied-Johns, though still to decide whether to stay in brewing or not, is rated a reliable bet to continue a solid half-year performance and raise full-year profits by more than 12 per cent to £635m.

Philip Renshaw

PROPERTY

The recent round of results from commercial property companies highlights the difference between those companies which earn profits from rents from long term investment in offices, shops and factories and those companies which need to sell buildings to survive.

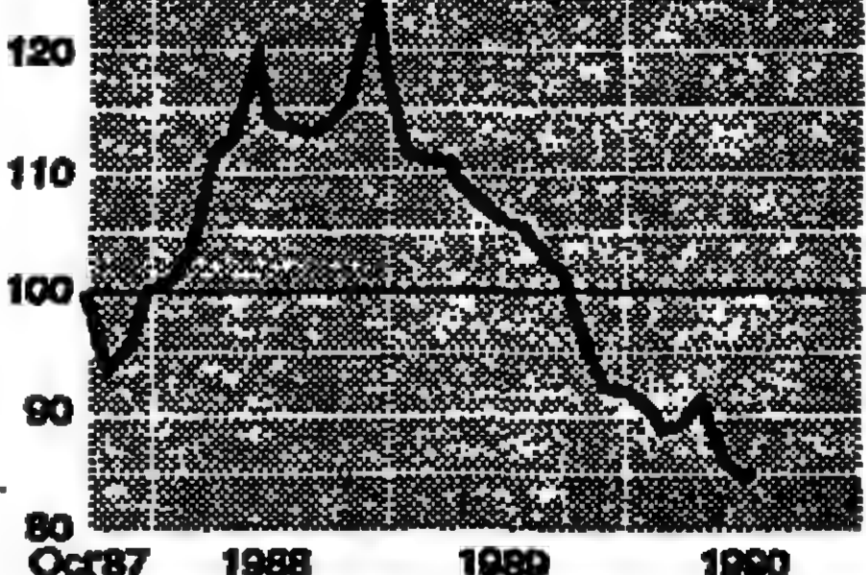
Most at risk are developers which are heavily borrowed and which are unable to find buyers for their developments temporarily to stop purchasing.

Developers which need to sell are facing much greater strain. High interest rates and the prospect of more office space coming on to the market than will be needed during the next few years in central London - Britain's biggest commercial property market - has persuaded many investment institutions temporarily to stop purchasing.

Great Portland Estates at the beginning of last month announced a 17 per cent fall in the underlying value of its City of London office portfolio since March.

Property

FT-Actuaries Index relative to the FT-A All-Share Index



last year. British Land over the same period said its City office properties had fallen by more than 10 per cent in value.

Profits from sale of developments at British Land fell from £24.3m to £4.2m. Gross rental income, benefitting from the rent reviews however rose by 40 per cent from £56m to £79.6m.

The property market will continue to remain difficult as reduced investment and tenant demand is expected to spread to other parts of the country.

Several developers have collapsed already this year including Rush & Tompkins in which Hoechst a West German contractor had taken a 25 per cent stake. More are likely to follow.

Long term property investors with reasonably healthy balance sheets are not at risk.

Andrew Taylor

CHEMICALS

Analysts are generally anxious about the short-term prospects for many of Britain's chemicals companies. The sector has swung recently into a downturn which has depressed prices at the commodity end of the industry, and had a sharp effect on profits.

Another unsettling factor is that because of tighter environmental regulations, much of the industry will face higher costs over the next few years on new equipment to treat effluent and other waste.

Imperial Chemical Industries, Britain's biggest chemicals group, is nowadays

only partly a bellwether of the UK industry as it gains no more than a quarter of its sales from the UK.

But it is not immune from the downward pressure on prices and profits in many chemicals fields in much of the developed world. Analysts are expecting a profit for 1990 of about £140m, significantly below the £153m figure for last year.

ICI, for all the moves in recent years towards high-value areas of chemicals such as drugs and agrochemicals, still gains a large part of revenues from bulk areas such as fibres, plastics and high-volume industrial materials.

Companies which have put greater emphasis on the so-called specialty fields of chemicals - which sell in low volumes and at high prices - are expected to fare somewhat better.

The stockmarket was cheered recently by the figures for 1989 of Allied Colloids, a specialty company which makes dozens of products for fields as diverse as water treatment and textiles processing.

Laporte is another specialty chemicals group which in recent years has targeted areas of chemicals which look to be protected from some of the cyclical downturns in the industry at the bulk end of the sector. At the taxable level it showed a profit of £100m in 1989 and analysts are expecting a figure of about £126m for this year.

Peter Marsh

ADVERTISING

The days when the market services sector was one of the whitest areas of the stock market are a long way away.

The advertising agencies and design groups which once saw their shares rise rapidly as they regaled the market with the details of their latest trans-Atlantic deal, are now struggling against hefty debts, plunging profits and crippling liabilities.

Broadly speaking the sector falls into three categories. There are the casualties. The worst cases are FKB, the sales promotion company, and Michael Peters, the design group, which are now so fragile that they have been forced to try to find new finance. Then there are the companies like Saatchi & Saatchi, Yellowhammer and the VPI Group, which are paying the price for their over-ambitious expansion in the 1980s.

Another clutch of companies fall into the "jury is still out" category. These are the companies - such as WPP, the world's largest marketing services group, and Sandwick, the public relations consultancy - which were highly acquisitive in the 1980s.

And then there is the small band of successes. These are the advertising agencies - the Lowe Group, Abbe Mead Vickers and Gold Greenleaf Trot - which have increased profits year after year, but have seen their shares slide steadily because of the problems of the other members of the sector.

Alice Ransworth

MEDIA

Virtually all the media industries in the UK, from radio and television to newspapers and magazines, are suffering from a squeeze in advertising revenue because of the slowdown in the economy and few are predicting much of an upturn this year.

Mr Michael Waterson, research adviser to the Advertising Association, believes the rapid decline is the worst since 1974.

For the first six months of this year net revenues of the 16 ITV companies grew by just 2.5 per cent and that performance was enhanced by an unexpectedly large 12 per cent rise in June, probably partly due to the surge of viewing caused by England's unexpected success in the World Cup.

Within the total the two London companies, Thames and London Weekend Television, have been consolidating their share and in May took 29 per cent of total revenue, something that has only happened eight times in the last five years.

Mr Jonathan Shier, chairman of the RTV Association marketing committee, believes the overall increase for the year will be between 4 and 5 per cent that will depend on a final quarter rise of eight per cent.

Newspaper advertising revenue is under pressure particularly in the south east and classified advertising, which tends to lag behind the performance of the economy, probably has still some way to fall.

Market leadership, particularly in the magazine sector has become even more important in such difficult trading conditions. Companies such as IPC, Reed International's magazine subsidiary, report revenues holding up well and EMAP, the newspapers, magazines and exhibitions group, recently reported a 13 per cent increase in pre-tax profits to more than £38m.

Raymond Snoddy

BANKS

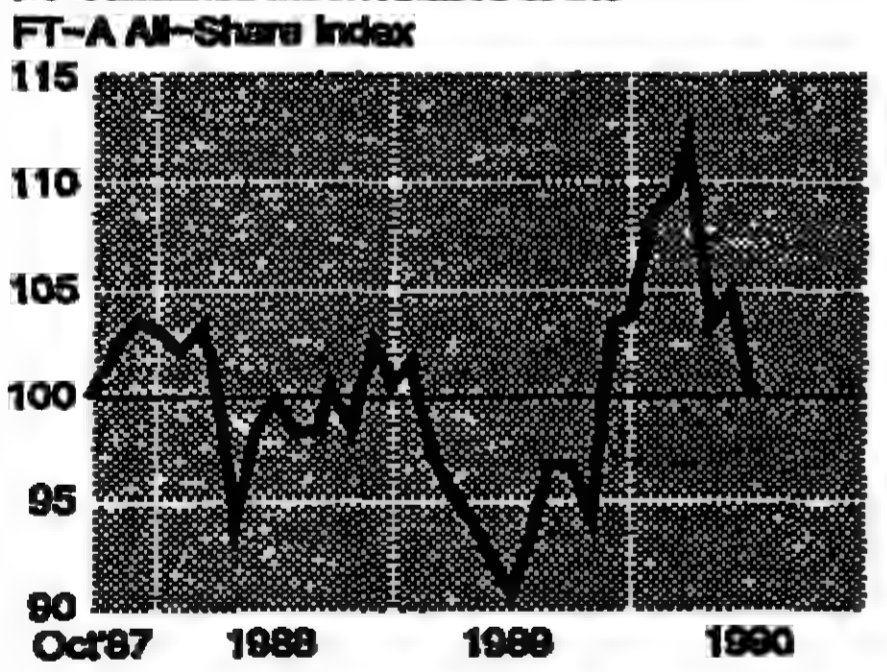
The big UK clearing banks have made no secret of the fact that their interim results, due between July 27 and August 3, will be poor.

A combination of slower economic activity, rising bad debts and squeezed margins is proving very painful. This means they will have to make higher provisions against bad debts at a time when their income is already under pressure.

Although Sir Kit McMahon, the chairman of Midland Bank, issued a profits warning as far back as April, the situation has got worse quite rapidly.

Banks

FT-Actuaries Index relative to the FT-A All-Share Index



In the last couple of months. The collapse of British & Commonwealth - which will cost Barclays alone £100m - came as a nasty shock, and every day brings news of fresh companies in trouble.

Analysts have been cutting back their profit forecasts by 10-20 per cent to take account of the deterioration, and they also expect some time to pass before the situation improves.

The actual results may well show large increases over last year's figures because the clearers made large substantial provisions against Third World loans in their 1989 interims.

Warburg Securities analysts stripped out the effect of exceptional provisions to find the underlying trend. This shows Midland Bank producing potentially the worst results with a 35 per cent fall to £263m, followed by Barclays down 15 per cent to £722m. NatWest is expected to be down by 10 per cent to £637m and Lloyds down 7 per cent to £485m.

Warburg expects the best result will come from the Abbey National which reports at the same time and will show a rise of 15 per cent to £229m.

David Lavelles

CIVIL AVIATION

The slowdown in the UK economy has coincided with one of the most difficult periods through which British civil aviation has had to pass.

Evidence of restructuring in the industry abounds. Three airlines - British Island Airways, Paramount Airways and Novair - have already ceased trading. Others, such as Dan Air and Air Europe,

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Gold climbs back above \$360

GOLD MOVED above \$360 a troy ounce on the London bullion market yesterday, while platinum continued its dramatic advance of the past few weeks, writes David Blackwell.

Spot gold closed at \$361.50, up \$4 an ounce, after reaching \$365 an ounce in hectic trading in the early afternoon. The rise follows Monday's \$4.75 advance and the price has now risen by \$11.75 in a week.

Analysts attributed yesterday's move to buying from the Middle East - in direct contrast to the recent sales from the area, which were mainly responsible for the fall in the gold price. But yesterday's

buying spree did not last long and came during a thin and nervous market.

However, Mr Rhona O'Connell, precious metals analyst with Shearson Lehman Hutton, pointed out that as the price passed the psychologically important \$360 level, producers were not selling into the rally. She thought they would be waiting to see what happens later in the week, as today there is no trading in New York because of the Independence Day holiday.

Rhodium continued to rise yesterday after Monday's leap, and closed in London yesterday at just over \$7,000 a troy ounce.

Mr Andrew Smith, precious

metals analyst with UBS Phipps & Drew, said that consumers could not see where they were going to get their metal from, producers could not refine enough of it, and there were no stocks. "There is no reason why it should not keep on rising," he said.

Rhodium's rise started last November after problems at a new Rustenburg refinery in South Africa. The company is the biggest producer of the metal, which is used mainly in automotive exhaust catalysts.

The problems are now thought to be over, and there are no hold-ups in the supply chain, one trader said yesterday. But there is no freely available metal left.

Norwegian oilfield strikers defy back-to-work order

By Karen Fosell in Oslo

NORWAY'S OIL production remained depressed yesterday as 1,000 strikers on offshore platforms defied a union back-to-work order and tried to blockade some installations.

With operations resuming at only five of the country's 23 fields output reached just under 500,000 barrels, compared with normal daily production of 1.7m barrels.

On Monday the Government used enforced arbitration to order an end to the strike over wages that had begun at the weekend and had all but halted Norwegian output of oil and natural gas. Late on Monday the oil workers' union, instructed its 4,000 striking members to return to work.

But defiant platform workers

set up blockades to prevent helicopters from landing on offshore installations.

Mr Johan J. Jakobsen, acting Prime Minister while Mr Jan P. Syse, the Conservative Prime Minister, is on holiday, yesterday warned that illegal strikers could lose their jobs and be liable for financial damages caused by production losses.

The Norwegian Oil Industry Association said yesterday that it was considering seeking damages from the strikers and would also consider the role played by the union.

Daily production of between 300,000 and 400,000 barrels resumed at Statoil's Statfjord, Gullfaks and Veslefrikk fields while Norsk Hydro was producing between 60,000 and 70,000

barrels a day from the Oseberg field and 22,000 b/d from the Troll West field.

Norsk Hydro said that it believed production from the Oseberg field could be brought up to its normal daily output of about 300,000 barrels today.

At Phillips Petroleum's Ekofisk field, however, production remained at a standstill. Ekofisk normally produces 250,000 b/d of crude oil and natural gas liquids, which is piped to Teesside, and 1.5m cu ft a day of gas.

The Government said yesterday that the union had lost control of its members, which was "very bad for a nation engaged in serious gas negotiations."

Coffee pact members agree to meeting

A BRAZILIAN proposal to hold discussions on the international coffee pact's future won the backing of other countries yesterday, writes David Blackwell.

The International Coffee Organisation said its executive board would meet on July 23 in London "with the possibility of extending for an extra day to review the situation regarding

the process of negotiating a new agreement and to advise the ICO council chairman of any possibility of convening a negotiating group."

At present the coffee pact is in limbo; attempts to support prices through an export quota system collapsed last year. Brazil, the biggest producer, surprised the markets on Monday with its proposal for talks. Yesterday London coffee prices were again ahead because of the news.

Brazilian policy on coffee remains unclear. A trader at one of Brazil's leading export houses said yesterday: "There does not seem to be anybody in the government involved in this question. Private bodies may be acting as co-ordinators, trying to forge a policy."

MINOR METALS PRICES

Prices from Metal Bulletin (last week's in brackets).

ANTIMONY: European free market, 99.6 per cent, \$ per lb, in warehouse, 1,640-1,710 (1,650-1,710).

BISMUTH: European free market, 99.99 per cent, \$ per lb, in warehouse, 2,300-2,400 (2,400-2,500).

CADMIUM: European free market, 99.5 per cent, \$ per lb, in warehouse, 2,850-3,000 (2,900-3,100).

COBALT: European free market, 99.5 per cent, \$ per lb,

in warehouse, 8.00-8.30 (8.00-8.30).

MERCURY: European free market, 99.99 per cent, \$ per 76 lb flask, in warehouse, 200-225 (205-225).

MOLYBDENUM: European free market, rounded molybdenum oxide, \$ per lb, in warehouse, 4.00-4.25 (4.00-4.25).

SELENIUM: European free market, 99.5 per cent, \$ per lb, 4.85-5.00 (5.00-5.50).

TUNGSTEN ORE: European free market, standard min. 65 per cent, \$ per tonne unit (10

kg) WO, cif, 40-54 (40-55).

VANADIUM: European free market, min. 98 per cent, \$ a lb VO, cif, 2.95-3.20 (2.90-3.10).

URANIUM: Nucxco exchange value, \$ per lb, UO₂, 9.25 (8.65).

LEAD MANUFACTURED STOCKS (At Monday's close) tonnes

| | |
|-----------|-------------------|
| Aluminium | +5,225 to 182,725 |
| Copper | +700 to 43,650 |
| Lead | +598 to 4,594 |
| Nickel | +100 to 22,225 |
| Zinc | +100 to 12,470 |

Indonesia aims to close cocoa quality gap

Claire Bolderson outlines plans to challenge the big-time exporting countries

IT WOULD be hard to convince an Indonesian cocoa farmer that these are not the happiest of times for cocoa producing countries.

While most producing countries contemplate production cuts in the face of yet another year of surplus supply and depressed prices, Indonesia is planning the opposite. Within the next five years it expects to double cocoa production to around 200,000 tonnes a year and by the end of the century it plans to have increased its current 3 per cent share of the world market to about 13 per cent.

But Indonesia is aware that quantity alone will not be enough to ensure its success as a major cocoa producer and a drive is now under way to improve the quality of the country's beans.

Indonesia is a relative new-

comer to the cocoa game. Wide-spread production only took off after the high prices of the late 1970s convinced smallholders, who now account for more than half the country's producers, that there was money to be made from cocoa trees.

In Indonesia the costs of producing cocoa are among the lowest in the world. For most producers, labour is the biggest expense but Indonesia, with a population of 180m, mostly rural based, has no shortage of cheap manpower. The maximum wage for an Indonesian cocoa worker is around \$1 a day.

At the same time, cocoa productivity is high, averaging about one tonne a hectare compared with about 800 kg a hectare in the quality cocoa producing countries of West Africa. According to Mr Ibrahim

Hasan, head of the Indonesian Cocoa Association, "smallholder productivity is probably one of the highest in the world."

Mr Hasan is confident that Indonesian cocoa growers can withstand even the lowest imaginable cocoa prices. He points to Malaysia and Brazil as "buffer countries" - when prices fall, they will be the ones to suffer while Indonesia will be able to afford to go on producing.

But it is exactly what Indonesia is producing that now worries the association. High productivity and low costs may be assured but Indonesia knows that is not enough to guarantee successful exports. The aim of the ICA and the Indonesian government now therefore is to switch to producing a much higher quality cocoa bean. At the moment Indonesian cocoa,

high in acidity and low in chocolate flavour, is suitable only for blending.

The association last month launched its National Campaign on Cocoa Quality Improvement. The campaign is directed at changing harvesting and post-harvesting practices. Cocoa growers are to be encouraged to switch to the much slower process used in Ghana in which the beans are stored for up to 12 days before fermentation, and are then dried slowly in the sun. For the bigger cocoa plantations an industrial version of the Ghanaian system is to be adopted.

The campaign also aims to affect the trading of Indonesia's cocoa by pushing for a fair price differential between high and low quality beans in order to create incentives for changing to the new harvesting methods.

Mr Hasan says the cost to cocoa producers of making the changes is negligible and he does not envisage any problems in persuading farmers to adopt new harvesting practices.

The Indonesian cocoa producing community is in a positive frame of mind. So much so that Indonesia is now contemplating joining the International Cocoa Organisation. In the past, Indonesia has abandoned the organisation because it could impose export and production controls.

The Indonesian Ministry of Agriculture has said, however, that with the current suspension of the International Cocoa Agreement, now could be the right time to join, putting Indonesia in a position to take part in efforts to draw up any new cocoa agreement when the time comes.

Tanzania tries to renovate threadbare sisal industry

Julian Ozanne describes how a Somerset farmer has offered hope to a decayed farming sector

FOR MILES and miles as the washed away pot-holes and potholes in the blue-green Ugungu Mountains near Morogoro, the landscape appears one long uninterrupted expanse of wild, lush green bush.

Occasionally, from the bumpy interior of a four wheel drive pick-up truck, it is just possible to make out some distant hills, their sharp peaks poking through the tangled elephant grass.

Most of the huge sisal estates around Morogoro, some as big as 7,000 acres, are in an appalling state of seemingly permanent decay. Tons of sisal stalks, worth millions of dollars of vital foreign exchange, lie being left to rot on the plants overgrown with weeds and grass. Yards are littered with rusting scraps of trailers and cannibalised tractors. Many of the working tractors, gifts of western aid, are used as bush barriers and little railways, which once tracked sisal through the estate to the decaying factories, have deteriorated beyond repair. The antique "Corona" decorticators, which British and Asian sisal barons imported in the 1930s and 1940s, are barely held together with home made spare parts.

"If I called back the British estate to look at their former estates I am sure they would laugh at us because we have ruined their estates," former President Julius Nyerere once said.

It was Mr Nyerere's policy of nationalisation, embarked on

in the late 1960s, which significantly contributed to the decline of the sisal industry in Tanzania, once the world's biggest producer. Production fell from 280,000 tonnes in 1964 to just 32,000 tonnes last year - 40 to 50 per cent of what was ready in the fields.

Despite buoyant world prices for sisal and economic reform in Tanzania the sisal industry is still beset with fundamental problems. Key among these are shortages of cutters and spare parts for worn out antiquated machinery. In the state-owned estates, run by the Tanzanian Sisal Authority, these constraints are compounded by cash-flow difficulties, scarcity of vital foreign exchange, low morale and lack of incentive among workers, poor management and centralised marketing and allocation of investment.

While solutions to many of these problems still seem far away a note of optimism has been struck in Tanzania by an ambitious experiment being conducted by the TSA, despite political opposition, with mobile sisal decorticators.

Designed and manufactured by a plucky Somerset farmer, Mr Michael Dobell, the Crane mobile decorticators offer a number of revolutionary innovations to the industry.

Chief among these are its potential to slash costs of production and solve the perennial problem in Africa of maintenance.

The old decortication method, which separates the

leaf - about 96 per cent from the fibre, is based in a Morogoro, one machine out of three is working but, even in a good week, it only functions for three days. The estate is also faced with an electricity bill of TSh300,000 (\$890) a month for running the machine and the water pump - accounting for about 25 per cent of direct costs.

The Crane mobile decorticator strips the fibre from the leaf in the field without having to use any water. It can be drawn by a 100 horse power tractor and driven by the power take-off shaft producing two to three tonnes a day. The waste left over after decortication is dumped in the field and turns into a mulch after a few months.

The potential savings of mobile decortication are immense, especially in Africa. Transport costs can be slashed as the leaf no longer needs to



Tanzania was once the world's biggest sisal producer.

be taken from the field to the factory. And the whole expense of providing power and water to the crane decorticators is eliminated.

Furthermore, the robust Crane decorticator can be maintained easily with spare parts purchased off the shelf and installed by trained fitters rather than mechanics and engineers.

Mobile decortication also means that for the first time sisal can be grown away from a reliable power and water supply with minimum capital outlay on fixed equipment. The Crane decorticator is sold for about \$10,000.

"There is no doubt that this machine can do what it is supposed to do which is decorticate sisal perfectly. It is going to revolutionise the whole industry," said Mr Dobell, who has battled bureaucracy and traditional attitudes in Tanzania to prove his machine.

It is an assessment which the TSA, after a year of trial and experimentation, agrees with.

"The fact is that you take a hundred tonnes of leaf to the decorticator, extract four tonnes, pump in 10,000 gallons of water an hour and dump the waste into your rivers. That does not need a lot of arithmetic to convince us of the need for modern mobile decortica-

tion," said Mr Salum Shante, Director of Operations and Marketing at the TSA.

The TSA has taken delivery of 16 of the Crane decorticators as a start of an ambitious rehabilitation programme that aims to push production back up to previous levels. Joint venture agreements and management contracts are being negotiated in both sisal farming and the spinning industry. An Italian company, Piacenza, is just concluding a \$40m deal to take a 30 per cent share in Tanzania's largest spinning factory at Tanga which has been operating at 6.5 per cent of its installed capacity of 60,000 tonnes a year.

At his most optimistic Mr Shante says Tanzania could produce 1m tonnes of fibre a year to meet the transnational demand for pulp for the paper industry. He also talks enthusiastically of beginning to look at uses for sisal leaf, currently wasted, for products like industrial alcohol and natural wax and as a commercial product in the pharmaceutical industry.

But given the state of Tanzania's sisal industry and the critical shortage of capital, translating these dreams into reality is going to be a long process. A beginning has been made, however, with mobile decortication.

WORLD COMMODITIES PRICES

MARKET REPORT

ZINC PRICES slid further on the London Metal Exchange yesterday as traders discounted the strike at the Bathurst lead/zinc mine owned by Brunswick Mining and Smelting, a Noranda subsidiary, as a market factor. The cash price closed at \$1,821.50 a tonne, adding \$24.50 to Monday's \$40 fall.

Traders explained that the Bathurst strike was having little impact because summer shipments from Arctic Circle mines were available and because continuing labour talks meant there was hope of a settlement at Cominco's Trail lead/zinc smelter. The same considerations applied to lead, which, with the

LME contract being denominated in sterling, was also depressed by the strength of the pound. Cash lead closed \$8.75 lower at \$208.25 a tonne following Monday's \$5 decline, switching from a \$3.50 premium to a 25c discount against the three-month delivery price. An early rally in the copper market wiped out by the close, with cash metal ending \$2.50 down on the day at \$1,495.50 a tonne. The rise had reflected short-covering encouraged by the announcement of a \$4.75-a-tonne fall in LME warehouse stocks to a 2½-month low of 55,725 tonnes.

Compiled from Reuters

London Markets

| SPOT MARKETS | | |
|-------------------------------------|---------------|--------|
| Cash oil (per barrel FOB) | | + or - |
| Crude oil | \$13.70-13.80 | +0.15 |
| Gas oil | \$12.00-12.10 | +0.10 |
| W.T.I. (1 pm set) | \$16.25-16.35 | |
| OIL PRODUCTS | | |
| (NEM prompt delivery per tonne CIF) | | + or - |
| Premium Gasoline | \$201-203 | -1 |
| Gas oil | \$198-200 | -0.5 |
| Heavy Fuel Oil | \$202-204 | |
| Naphtha | \$148-149 | |
| Petroleum Argus Estimate | | |
| Other | | + or - |
| Gold (per troy oz) | \$351.5 | +4.9 |
| Silver (per troy oz) | \$47.0 | +5 |
| Platinum (per troy oz) | \$847.0 | +0.4 |
| Palladium (per troy oz) | \$1,615.0 | -0.8 |
| ALUMINIUM (per tonne) | | |
| Aluminium (free market) | \$1,550 | -5 |
| Copper (US Producer) | \$190 | +1 |
| Lead (US Producer) | \$40 | |
| Nickel (free market) | \$40 | |
| Tin (Korea Lumpur market) | 160.00 | -0.27 |
| Tin (New York) | 282.0 | |
| Zinc (US Prime Western) | 67.50 | |
| Cash (five weight) | 100.20 | +1.20 |
| Strip (lead weight) | 100.00 | +12.1 |
| Strip (five weight) | 97.70 | -5.78 |
| London daily sugar (raw) | \$385.1 | +8.5 |
| London daily sugar (white) | \$412.0 | +10.5 |
| Tell and Lyle export sugar | \$395.5 | +5.0 |
| Barley (English seed) | \$100 | |
| Maize (US No. 3 yellow) | \$1,057.5 | -0.8 |
| Wheat (US Dark Northern) | \$2.00 | |
| Rubber (Aug) | \$33.50 | -0.25 |
| Rubber (Sep) | \$34.00 | -0.25 |
| Rubber (Jul RSE No 1 Jul) | \$33.00 | |
| Coconut oil (Philippines) | \$255.0 | +5 |
| Palm Oil (Malaysia) | \$250.0 | +0.5 |
| Copra (Philippines) | \$215.0 | -2.5 |
| Copra (Indonesia) | \$168.0 | +4 |
| Colza "A" Index | \$1.70 | +0.85 |
| Woolfats (44 Super) | \$480 | |

£ a tonne unless otherwise stated. p=premium, c=contract, f=forwarding, q=July, s=Sept, a=Oct, Dec v=Jan, Jul v=Aug, Aug v=Sept, Sept v=Oct. Commission average latest prices. * change from a week ago. £/London physical market.

| SUGAR - London FOK (\$ per tonne) | | |
|-----------------------------------|-----------------------------|--|
| Raw | Close Previous High/Low | |
| Aug | 260.40 257.00 260.20 258.00 | |
| Oct | 265.00 262.00 264.00 262.00 | |
| Nov | 260.00 258.00 259.00 257.00 | |
| Dec | 260.00 257.00 256.00 254.00 | |
| Jan | 260.00 257.00 256.00 254.00 | |
| Feb | 260.00 257.00 256.00 254.00 | |
| Mar | 260.00 257.00 256.00 254.00 | |
| Apr | 260.00 257.00 256.00 254.00 | |
| May | 260.00 257.00 256.00 254.00 | |
| Jun | 260.00 257.00 256.00 254.00 | |
| Jul | 260.00 257.00 256.00 254.00 | |
| Aug | 260.00 257.00 256.00 254.00 | |
| Oct | 260.00 257.00 256.00 254.00 | |
| Nov | 260.00 257.00 256.00 254.00 | |
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| Mar | 260.00 257.00 256.00 254.00 | |
| Apr | 260.00 257.00 256.00 254.00 | |
| May | 260.00 257.00 256.00 254.00 | |
| Jun | 260.00 257.00 256.00 254.00 | |
| Jul | 260.00 257.00 256.00 254.00 | |

LONDON STOCK EXCHANGE

Early gains lost in nervous session

A FRESH flurry of optimism for early British entry into the European Exchange Rate Mechanism soon died away yesterday, and UK equities recorded another uninspiring trading session. Some UK press reports had claimed that the president of the Bundesbank had suggested that UK entry into the ERM might come sooner than currently expected, and equities were encouraged at first when sterling opened sharply higher. However, the firmness in sterling failed to shield equities later when government bonds turned lower.

Trading volumes remained unconvincing, with inter-

| Account Dealing Dates | | |
|-----------------------|--------|--------|
| First Dealing | Jul 5 | Jul 20 |
| Second Dealing | Jul 6 | Jul 21 |
| Third Dealing | Jul 7 | Jul 22 |
| Fourth Dealing | Jul 8 | Jul 23 |
| Fifth Dealing | Jul 9 | Jul 24 |
| Sixth Dealing | Jul 10 | Jul 25 |
| Seventh Dealing | Jul 11 | Jul 26 |
| Eighth Dealing | Jul 12 | Jul 27 |
| Ninth Dealing | Jul 13 | Jul 28 |
| Tenth Dealing | Jul 14 | Jul 29 |
| Eleventh Dealing | Jul 15 | Jul 30 |
| Twelfth Dealing | Jul 16 | Jul 31 |

dealer business still making up a high proportion of the market. The equity sector continued to reflect the nervousness over the near term outlook expressed at the end of last week by strategists at several leading securities houses.

Once again, the market traced an uncertain path, open-

ing uncertainly but moving ahead as the pound strengthened and showing a gain of 9 Footsie points at best. But the lack of support from the institutions left share prices vulnerable to the fall in gilt-edged securities, and ERM speculation was dampened by the response from Mrs Thatcher, the UK Prime Minister, to a parliamentary question.

The equity market went into reverse and was down by 5.9 Footsie points before steadying with the help of a firm opening on Wall Street, which gained 13 Dow points in London trading hours.

At the close, the FT-SE index was a mere 0.3 off at 2,371.7.

Seag volume increased to 449.9m shares from Monday's 310.7m, but dealers stressed that genuine retail business had been thin. Statistics from the International Stock Exchange show that daily retail business in equities has fallen back again to well below the 10m mark regarded as the benchmark of a viable market from the point of view of the London marketmakers. Concern over the financial health of London-based securities firms has inevitably resurfaced as trading volumes have fallen away after the brief revival in May and June.

The concern over corporate profits which has been distur-

bing the stockmarket for some weeks found no relief yesterday. Annual results from GEC, the electrical group, were at the lower end of the market range and found an uninspiring reception. The fall of around two thirds in profits at GEC's consumer goods divisions dealt a further blow to confidence in the market's recovery, which were also hurt by a weak start to profits from Budgens, the UK food retailer. Burton, the retail clothing group which started the latest slide in consumer stocks with the disclosure last week that sales were falling, remained under selling pressure.

| FINANCIAL TIMES STOCK INDICES | | | | | | | | | |
|--------------------------------------|-------------------|------------------|---------|---------|---------|----------|--------|--------|------------------|
| | July 3 | July 2 | June 29 | June 28 | June 27 | Year Ago | High | Low | Since Completion |
| Government Secs | 79.39 | 79.80 | 79.97 | 79.89 | 80.02 | 85.74 | 84.20 | 74.13 | 127.4 |
| Fixed Interest | 98.06 | 98.19 | 98.22 | 98.19 | 98.42 | 98.82 | 92.01 | 83.80 | 50.58 |
| Ordinary Share | 1984.7 | 1986.6 | 1986.9 | 1987.8 | 1992.6 | 1900.3 | 1988.3 | 1958.8 | 48.4 |
| Gold Mines | 181.3 | 182.6 | 178.8 | 178.1 | 174.5 | 196.5 | 178.5 | 167.9 | 43.5 |
| FT-SE 100 Share | 2371.7 | 2372.0 | 2374.5 | 2365.7 | 2373.5 | 2174.4 | 2463.7 | 2103.4 | 886.5 |
| Ord. Div. Yield | 4.58 | 4.58 | 4.57 | 4.51 | 4.57 | 4.48 | 4.58 | 4.58 | 1928 |
| Earning Yld % (full) | 10.76 | 10.76 | 10.75 | 10.55 | 10.75 | 10.49 | 10.75 | 10.75 | 1928 |
| P/E Ratio (Net) | 11.24 | 11.26 | 11.27 | 11.19 | 11.27 | 11.50 | 11.27 | 11.27 | 1928 |
| SEAG 100 Share | 2371.7 | 2372.0 | 2374.5 | 2365.7 | 2373.5 | 2174.4 | 2463.7 | 2103.4 | 886.5 |
| Equity Turnover (m) | 449.9 | 310.7 | 310.7 | 310.7 | 310.7 | 310.7 | 310.7 | 310.7 | 310.7 |
| Share Traded (m) | 449.9 | 310.7 | 310.7 | 310.7 | 310.7 | 310.7 | 310.7 | 310.7 | 310.7 |
| Ordinary Share Index, Hourly changes | Day's High 1993.7 | Day's Low 1888.2 | | | | | | | |
| Open | 9 am | 10 am | 11 am | 12 pm | 1 pm | 2 pm | 3 pm | 4 pm | |
| 2374.0 | 2371.9 | 2375.6 | 2370.2 | 2375.9 | 2371.7 | 2371.8 | 2368.5 | 2368.1 | |

| GILT EDGED ACTIVITY | | | | | | | | | |
|---------------------|--------|---------|---------|---------|---------|---------|---------|---------|---------|
| | July 2 | June 29 | June 28 | June 27 | June 26 | June 25 | June 24 | June 23 | June 22 |
| Index | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Gilt Edged Bargains | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| 5-Day average | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

SE Activity 1974, excluding intra-market business & Overseas turnover.
London report and latest Share Index Tel. 0888 123001.

| TRADING VOLUME IN MAJOR STOCKS | | | | | | | | | | | | | | |
|--------------------------------|-------|--------|-------|--------|---------|-------|--------|----------|-------|--------------|-------|-----|---|---|
| | Value | Change | Price | Days | Volume | Value | Change | Price | Days | Volume | Value | | | |
| | (\$B) | (\$) | | | (\$B) | (\$B) | (\$) | | | (\$B) | (\$B) | | | |
| ADT | 1,000 | 190 | 114 | -2 | Carroll | 1,000 | 260 | 114 | -2 | MPIC | 318 | 618 | + | 4 |
| ADT Group | 3,000 | 114 | -2 | Delgro | 287 | 397 | -2 | Metromed | 1,111 | 85 | + | 1 | | |
| Alloy Metals | 1,000 | 2,200 | 114 | -2 | Dynegy | 1,000 | 1,000 | 114 | -2 | Smith Barney | 190 | 301 | + | 3 |
| Alloy Metals | 1,000 | 2,200 | 114 | -2 | Eastman | 1,000 | 1,000 | 114 | -2 | Smith Barney | 190 | 301 | + | 3 |
| Alloy Metals | 1,000 | 2,200 | 114 | -2 | Eastman | 1,000 | 1,000 | 114 | -2 | Smith Barney | 190 | 301 | + | 3 |
| Alloy Metals | 1,000 | 2,200 | 114 | -2 | Eastman | 1,000 | 1,000 | 114 | -2 | Smith Barney | 190 | 301 | + | 3 |
| Alloy Metals | 1,000 | 2,200 | 114 | -2 | Eastman | 1,000 | 1,000 | 114 | -2 | Smith Barney | 190 | 301 | + | 3 |
| Alloy Metals | 1,000 | 2,200 | 114 | -2 | Eastman | 1,000 | 1,000 | 114 | -2 | Smith Barney | 190 | 301 | + | 3 |
| Alloy Metals | 1,000 | 2,200 | 114 | -2 | Eastman | 1,000 | 1,000 | 114 | -2 | Smith Barney | 190 | 301 | + | 3 |
| Alloy Metals | 1,000 | 2,200 | 114 | -2 | Eastman | 1,000 | 1,000 | 114 | -2 | Smith Barney | 190 | 301 | + | 3 |
| Alloy Metals | 1,000 | 2,200 | 114 | -2 | Eastman | 1,000 | 1,000 | 114 | -2 | Smith Barney | 190 | 301 | + | 3 |
| Alloy Metals | 1,000 | 2,200 | 114 | -2 | Eastman | 1,000 | 1,000 | 114 | -2 | Smith Barney | 190 | 301 | + | 3 |
| Alloy Metals | 1,000 | 2,200 | 114 | -2 | Eastman | 1,000 | 1,000 | 114 | -2 | Smith Barney | 190 | 301 | + | 3 |
| Alloy Metals | 1,000 | 2,200 | 114 | -2 | Eastman | 1,000 | 1,000 | 114 | -2 | Smith Barney | 190 | 301 | + | 3 |
| Alloy Metals | 1,000 | 2,200 | 114 | -2 | Eastman | 1,000 | 1,000 | 114 | -2 | Smith Barney | 190 | 301 | + | 3 |
| Alloy Metals | 1,000 | 2,200 | 114 | -2 | Eastman | 1,000 | 1,000 | 114 | -2 | Smith Barney | 190 | 301 | + | 3 |
| Alloy Metals | 1,000 | 2,200 | 114 | -2 | Eastman | 1,000 | 1,000 | 114 | -2 | Smith Barney | 190 | 301 | + | 3 |
| Alloy Metals | 1,000 | 2,200 | 114 | -2 | Eastman | 1,000 | 1,000 | 114 | -2 | Smith Barney | 190 | 301 | + | 3 |
| Alloy Metals | 1,000 | 2,200 | 114 | -2 | Eastman | 1,000 | 1,000 | 114 | -2 | Smith Barney | 190 | 301 | + | 3 |
| Alloy Metals | 1,000 | 2,200 | 114 | -2 | Eastman | 1,000 | 1,000 | 114 | -2 | Smith Barney | 190 | 301 | + | 3 |
| Alloy Metals | 1,000 | 2,200 | 114 | -2 | Eastman | 1,000 | 1,000 | 114 | -2 | Smith Barney | 190 | 301 | + | 3 |
| Alloy Metals | 1,000 | 2,200 | 114 | -2 | Eastman | 1,000 | 1,000 | 114 | -2 | Smith Barney | 190 | 301 | + | 3 |
| Alloy Metals | 1,000 | 2,200 | 114 | -2 | Eastman | 1,000 | 1,000 | 114 | -2 | Smith Barney | 190 | 301 | + | 3 |
| Alloy Metals | 1,000 | 2,200 | 114 | -2 | Eastman | 1,000 | 1,000 | 114 | -2 | Smith Barney | 190 | 301 | + | 3 |
| Alloy Metals | 1,000 | 2,200 | 114 | -2 | Eastman | 1,000 | 1,000 | 114 | -2 | Smith Barney | 190 | 301 | + | 3 |
| Alloy Metals | 1,000 | 2,200 | 114 | -2 | Eastman | 1,000 | 1,000 | 114 | -2 | Smith Barney | 190 | 301 | + | 3 |
| Alloy Metals | 1,000 | 2,200 | 114 | -2 | Eastman | 1,000 | 1,000 | 114 | -2 | Smith Barney | 190 | 301 | + | 3 |
| Alloy Metals | 1,000 | 2,200 | 114 | -2 | Eastman | 1,000 | 1,000 | 114 | -2 | Smith Barney | 190 | 301 | + | 3 |
| Alloy Metals | 1,000 | 2,200 | 114 | -2 | Eastman | 1,000 | 1,000 | 114 | -2 | Smith Barney | 190 | 301 | + | 3 |
| Alloy Metals | 1,000 | 2,200 | 114 | -2 | Eastman | 1,000 | 1,000 | 114 | -2 | Smith Barney | 190 | 301 | + | 3 |
| Alloy Metals | 1,000 | 2,200 | 114 | -2 | Eastman | 1,000 | 1,000 | 114 | -2 | Smith Barney | 190 | 301 | + | 3 |
| Alloy Metals | 1,000 | 2,200 | 114 | -2 | Eastman | 1,000 | 1,000 | 114 | -2 | Smith Barney | 190 | 301 | + | 3 |
| Alloy Metals | 1,000 | 2,200 | 114 | -2 | Eastman | 1,000 | 1,000 | 114 | -2 | Smith Barney | 190 | 301 | + | 3 |
| Alloy Metals | 1,000 | 2,200 | 114 | -2 | Eastman | 1,000 | 1,000 | 114 | -2 | Smith Barney | 190 | 301 | + | 3 |
| Alloy Metals | 1,000 | 2,200 | 114 | -2 | Eastman | 1,000 | 1,000 | 114 | -2 | Smith Barney | 190 | 301 | + | 3 |
| Alloy Metals | 1,000 | 2,200 | 114 | -2 | Eastman | 1,000 | 1,000 | 114 | -2 | Smith Barney | 190 | 301 | + | 3 |
| Alloy Metals | 1,000 | 2,200 | 114 | -2 | Eastman | 1,000 | 1,000 | 114 | -2 | Smith Barney | 190 | 301 | + | 3 |
| Alloy Metals | 1,000 | 2,200 | 114 | -2 | Eastman | 1,000 | 1,000 | 114 | -2 | Smith Barney | 190 | 301 | + | 3 |
| Alloy Metals | 1,000 | 2,200 | 114 | -2 | Eastman | 1,000 | 1,000 | 114 | -2 | Smith Barney | 190 | 301 | + | 3 |
| Alloy Metals | 1,000 | 2,200 | 114 | -2 | Eastman | 1,000 | 1,000 | 114 | -2 | Smith Barney | 190 | 301 | + | 3 |
| Alloy Metals | 1,000 | 2,200 | 114 | -2 | Eastman | 1,000 | 1,000 | 114 | -2 | Smith Barney | 190 | 301 | + | 3 |
| Alloy Metals | 1,000 | 2,200 | 114 | -2 | Eastman | 1,000 | 1,000 | 114 | -2 | Smith Barney | 190 | 301 | + | 3 |
| Alloy Metals | 1,000 | 2,200 | 114 | -2 | Eastman | 1,000 | 1,000 | 114 | -2 | Smith Barney | 190 | 301 | + | 3 |
| Alloy Metals | 1,000 | 2,200 | 114 | -2 | Eastman | 1,000 | 1,000 | 114 | -2 | Smith Barney | 190 | 301 | + | 3 |
| Alloy Metals | 1,000 | 2,200 | 114 | -2 | Eastman | 1,000 | 1,000 | 114 | -2 | Smith Barney | 190 | 301 | + | 3 |
| Alloy Metals | 1,000 | 2,200 | 114 | -2 | Eastman | 1,000 | 1,000 | 114 | -2 | Smith Barney | 190 | 301 | + | 3 |
| Alloy Metals | 1,000 | 2,200 | 114 | -2 | Eastman | 1,000 | 1,000 | 114 | -2 | Smith Barney | 190 | 301 | + | 3 |
| Alloy Metals | 1,000 | 2,200 | 114 | -2 | Eastman | 1,000 | 1,000 | 114 | -2 | Smith Barney | 190 | 301 | + | 3 |
| Alloy Metals | 1,000 | 2,200 | 114 | -2 | Eastman | 1,000 | 1,000 | 114 | -2 | Smith Barney | 190 | 301 | + | 3 |
| Alloy Metals | 1,000 | 2,200 | 114 | -2 | Eastman | 1,000 | 1,000 | 114 | -2 | Smith Barney | 190 | 301 | + | 3 |
| Alloy Metals | 1,000 | 2,200 | 114 | -2 | Eastman | 1,000 | 1,000 | 114 | -2 | Smith Barney | 190 | 301 | + | 3 |
| Alloy Metals | 1,000 | 2,200 | 114 | -2 | Eastman | 1,000 | 1,000 | 114 | -2 | Smith Barney | 190 | 301 | + | 3 |
| Alloy Metals | 1,000 | 2,200 | 114 | -2 | Eastman | 1,000 | 1,000 | 114 | -2 | Smith Barney | 190 | 301 | + | 3 |
| Alloy Metals | 1,000 | 2,200 | 114 | -2 | Eastman | 1,000 | 1,000 | 114 | -2 | Smith Barney | 190 | 301 | + | 3 |
| Alloy Metals | 1,000 | 2,200 | 114 | -2 | Eastman | 1,000 | 1,000 | 114 | -2 | Smith Barney | 190 | 301 | + | 3 |
| Alloy Metals | 1,000 | 2,200 | 114 | -2 | Eastman | 1,000 | 1,000 | 114 | -2 | Smith Barney | 190 | 301 | + | 3 |
| Alloy Metals | 1,000 | | | | | | | | | | | | | |

Regrade hurts Woodrow

A FORECAST from Robert Fleming Securities that 30 years of undercapitalised growth at Taylor Woodrow, the construction group, will be halted during the current year, caused a sharp retreat by Taylor Woodrow shares which eventually closed 10 off at 232p.

Mr Peter Jensen of Flemings lowered his forecast of pre-tax profits for the year to end-December from £17m to £10m, last year the company achieved pre-tax profits of £11.8m.

Mr Jensen said he was "concerned that Taylor Woodrow won't achieve enough property sales to keep profits ahead in a very difficult market."

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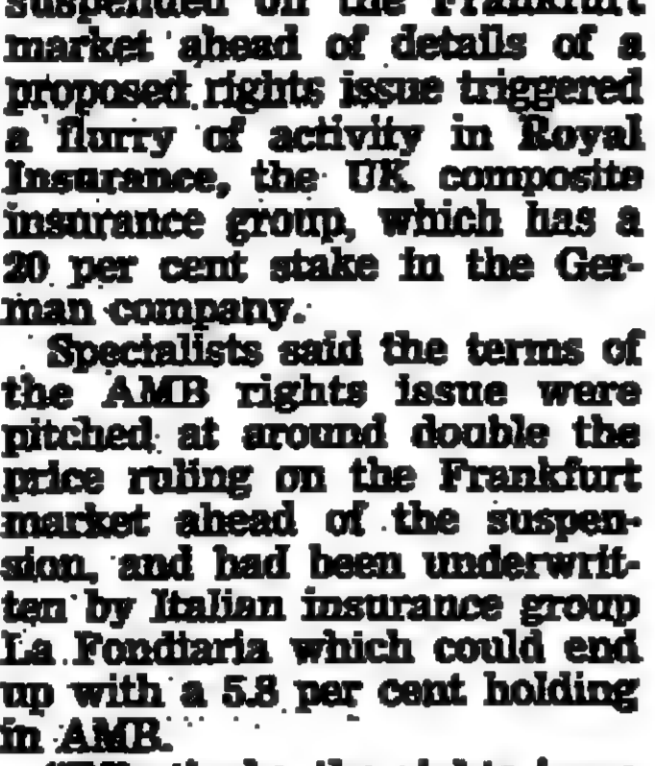
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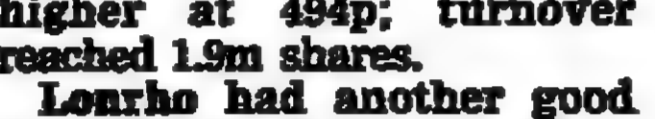
FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million)

Excluding: intra-market business & Overseas turnover



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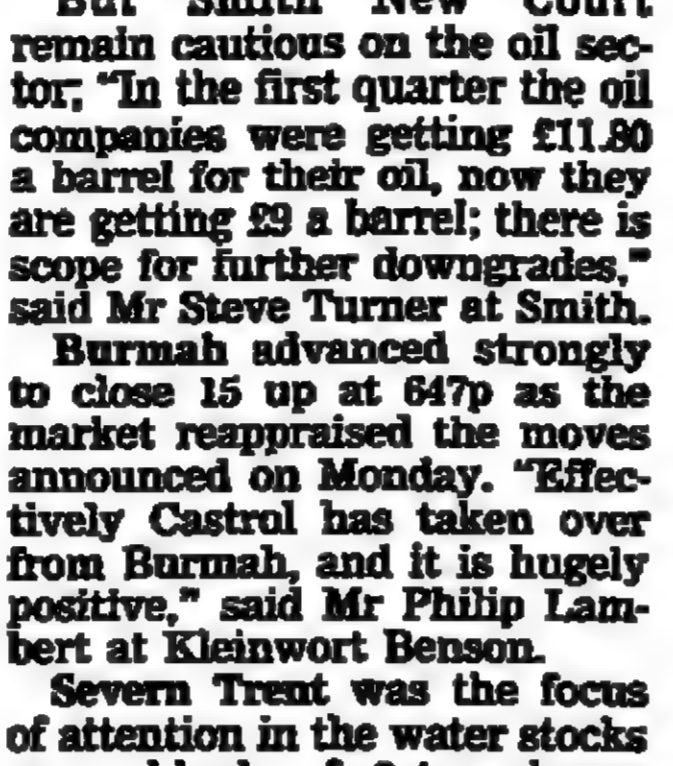
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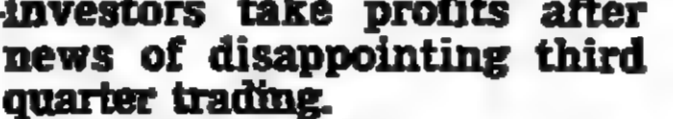
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| 31% | 1 Systems Connection | 3% | — | — | — |
| 34% | 581 Telecom Commerce 200 | — | — | — | 22.1 |
| 34% | 441 PMI Group Ltd | 102 | 12.75 | 1.9 | 4.0 |
| 181 | 12820 Unit Group Ltd | — | 5.0 | 4.0 | 4.0 |
| 181 | 555 Maple Leaf Inv | 56 | W2.0 | 0.7 | 44.9 |
| 31 | 31 Vista East | — | — | — | — |
| 13 | 13Vizcaya Hldgs Sp | 13 | — | — | — |
| 31 | 31Wilton Group Sp | — | — | — | — |

NOTES

Stock Exchange dealer classifications are indicated to the right of security names: A Alpha, B Beta, Y Gamma.

Unless otherwise indicated, prices and dividends are in pence and denominations are 25p. Estimated price/earnings ratios and

possible. The "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved A/C where applicable, is the basis on which the "net" distribution is calculated. Covers are based on the "net" distribution. The "gross" distribution, excluding exceptional profits/losses but including estimated extent of offsettable A/C, Voids are based on full prices, are gross, adjusted for estimated per cent and allow for estimated tax on distribution and rights.

Estimated Net Asset Values (NAVs) are shown for investment in the fund at the period end. The NAV is calculated as follows: (Dx) or premiums (P) = to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles

- * **Top Stock**
- * **Highs and lows marked thus have been adjusted to allow for**
- * **rights issues**
- * **Interim since increased or resumed**
- * **Interim since reduced, passed or deferred**
- * **Free-free to non-resident on application**
- * **Figures or report awaited**
- * **Not officially UK listed; dealings permitted under rule**
- * **500(a)**
- * **USM; not listed on Stock Exchange and company not**
- * **subjected to same degree of regulation as listed securities.**
- * **Not officially listed**
- * **Price at time of suspension**
- * **Indicates dividend or pending scrip and/or rights issue;**
- * **also, relative to previous scrip price**

- * Merger bid or reorganization in progress
- * Not comparable
- * Same interim dividend reduced final and/or reduced earnings indicated
- * Interim dividend cover on earnings updated by latest interim statement.
- * Cover allows for conversion of shares not now raising for cash dividends or only for regular dividends.
- * Cover does not allow for shares which will raise risk at future date. No P/E usually provided.
- * No par value

B.F. Belgian Francs Fr. French Francs \$S Yield based on assumption Treasury Bill Rate stays unchanged until maturity of debt. Conversion rate as of 10/1/86.
Other estimate c/c Cents; A Dividend rate paid or payable on

part of capital, cover based on dividend on full capital, e
part of capital, cover based on dividend on full capital, e
Assumed dividend and yield after scrip issue: 1. Payment from
capital sources: 1. Kroyne, on interim higher than previous total, n
2. Kroyne, on interim higher than previous total, n
Dividend and yield exclude a special payment, e indicated
dividend, cover relates to previous dividend, P/E ratio based on
assumed constant earnings, e indicated
dividend rate, cover based on previous year's earnings, v Subject to
the tax: 2. Dividend cover, an excess of 100 times, v Dividend
and yield based on interim earnings, e indicated
Special payment: Cover does not apply to special payment, A Net
dividend and yield, e indicated
Canadian, E Minimum tender price, F Dividend and yield based
on prospectus or other official estimates for 1988-89, E Assumed

Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1990. L Estimated annualized dividend cover and P/E based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989-90. P Figures based on prospectus or other official estimates for 1987. Q Gross, R Forecast annualized dividend, S Dividend and P/E based on prospectus or other official estimates for 1989-90. W Pro forma figures. Z Dividend total to date. Notes: 1. All figures are in US \$/p share. 2. Script issue, 3. ex rights, 4. ex fully, 5. ex capital distribution.

| REGIONAL & IRISH STOCKS | | | |
|---|-------|-----|----------|
| The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency. | | | |
| Ormg & Ross C.L. v | 830d | | |
| Finch Pk. v | 1000 | | |
| North (Mod) v | 1310d | -10 | |
| IRISH | | | |
| Cap 8½% Ls. 1991 | 578s | | |
| Sp. Cap Ls. 1990s | 576s | | |
| Irish 13½ 97/02 | 532d | +4s | |
| Domestic | 532d | +2s | |
| Carroll (P.L.) v | | | 125s -4s |
| Hall (Ir.) & N.S. | | | 36s |
| McDon. v | | | 36s |
| Ulster Hides | | | 238s -1 |
| British Drug | | | 160s |

| | | |
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| TRADITIONAL OPTIONS | | |
| 3-month call rates | | |
| Industrials | p | |
| Alcoa-Lyons | 70 | Rural Elect. 19 |
| American ... | 68 | RHM 30 |
| Asarco (ISSR) | 70 | Bank Of Am. Ord. 30 |
| BALCO 21 | 71 | Reel Int'l 21 |
| BAX 21 | 71 | Sears 21 |
| BTR 21 | 71 | Sm/K, Beecham A. 48 |
| Cummins 48 | 71 | TSC 11 |
| Dynalene 37 | 71 | Tecoma 11 |
| Eaton 37 | 71 | Truist EMI 19 |

| | | | |
|---------------|----|--------------|----|
| Blue Circle | 21 | Trust Houses | 24 |
| Bonks | 28 | T&A | 28 |
| Bowdler | 40 | Unifarm | 58 |
| Brit American | 47 | Victors | 19 |
| British Steel | 13 | Welcome | 57 |
| Brit Telecom | 25 | | |
| Cashiers | 36 | | |
| Granger Corp | 42 | | |
| Greenland | 41 | | |
| Guaranteed | 29 | | |
| European | 55 | | |
| FKI | 20 | | |
| Gen | 20 | | |
| Gen Accident | 93 | | |
| | 93 | | |

| Property | |
|-----------------|----|
| Brit Land | 32 |
| Control Sec | 4 |
| Land Securities | 45 |
| MEPC | 4 |
| Mortgage | 13 |

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|------------------|----|
| Glass | 68 |
| Grand Met | 63 |
| Guardian | 20 |
| IGM | 20 |
| Hanson | 20 |
| Harvard S&L | 53 |
| ICI | 79 |
| Lend Lease | 27 |
| Lepelt & Co. | 34 |
| Le Sueur | 5 |
| Lloyds Bank | 25 |
| Lucas Inds. | 13 |
| Marks & Spencer | 19 |
| Midland Bk. | 24 |
| Amica Pensions | 5 |
| Brit Petroleum | 28 |
| Burmah Oil | 35 |
| Cannock Pensions | 10 |
| Garick Ass. | 31 |
| Premier | 40 |
| Shell | 40 |
| Tucker Res. | 5 |
| Ultramar | 31 |

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| Oils | |
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|--------------|----|--------|----|
| Nel West Ltd | 38 | Larvik | 27 |
| N & O Ltd | 38 | RTZ | 50 |
| Poly Pack | 39 | | |

This service is available in every Company deal in an stock Exchanges throughout the United Kingdom for a fee of £2,050 per annum for each security.

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| New York Life Insurance Co. | | 100 Park Avenue | | 212 671 1000 | |
| Prudential Insurance Co. | | 100 Park Avenue | | 212 671 1000 | |
| Metropolitan Life Insurance Co. | | 100 Park Avenue | | 212 671 1000 | |
| Equitable Life Insurance Co. | | 100 Park Avenue | | 212 671 1000 | |
| Scottish Life Insurance Co. | | 100 Park Avenue | | 212 671 1000 | |
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| Swiss Life Insurance Co. | | 100 Park Avenue | | 212 671 1000 | |
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| Zurich American Life Insurance Co. | | 100 Park Avenue | | 212 671 1000 | |
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CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Sterling continues to advance

Sterling remained very firm on the foreign exchanges yesterday, as comments by Mrs Margaret Thatcher, the UK Prime Minister, and by Mr Karl Otto Pöhl, president of the West German Bundesbank, confirmed that the pound is likely to become a member of the EMS exchange rate mechanism in the foreseeable future.

Mrs Thatcher told Parliament that Britain is "bound to join the ERM. We have accepted that and we shall join when the time is right." This seemed to echo the words said by Mr Pöhl in London on Monday.

The Bundesbank president remained in London yesterday and told a committee of the House of Lords that "only those countries that have reached a high degree of convergence would begin with a common monetary policy and a common currency. Other countries then would be invited to join when they are ready."

At the same time he repeated his view that Britain's proposal to increase the use of the European Currency Unit,

on the road to monetary union, is unhelpful. Speculation that sterling could be part of the ERM before the end of the year pushed the pound up to DM2.975, from DM2.9250 against the D-Mark. The UK currency also gained 1.60 cents to \$1.775, while advancing to ¥269.00 from ¥266.75; to SF2.4800 from SF2.4750; and to FF9.8625 from FF9.8100. Sterling's index rose 0.6 to 92.3.

The dollar traded quietly against today's US Independence Day holiday. The currency had a weak undertone, on speculation about an easing of the Federal Reserve's monetary policy. Friday's figures for US employment trends may prove an important guide to the performance of the economy, and if the data is weak could encourage a lowering of interest rates, according to dealers.

At the London close the dol-

lar had fallen to DM1.6510 from DM1.6580; to ¥151.15 from ¥151.25; to SF1.9330 from SF1.9405; and to FF5.5425 from FF5.5625. Its index was unchanged at 86.4.

Within the EMS exchange rate mechanism the Spanish peseta hit its 6 per cent upper limit against the weak Danish krone, after Spanish officials ruled out any short-term depreciation of the currency. The lira was also firm, but remained within its agreed limits. The D-Mark fell to L733.30 from L734.00 and the French franc to L218.40 from L218.80 at the London close.

German monetary union remained the focal point for the D-Mark, but the currency showed little movement, as dealers continued to weigh up the implications. The D-Mark rose to FF3.3570 from FF3.3550 against the French franc and to ¥91.55 from ¥91.30 in terms of the Japanese yen.

EURO-CURRENCY INTEREST RATES

| Jul 3 | Short term | 7 Day notice | One month | Three months | Six months | One year |
|-----------|------------|--------------|-----------|--------------|------------|-----------|
| US Dollar | 14-14 1/2 | 14-14 1/2 | 14-14 1/2 | 14-14 1/2 | 14-14 1/2 | 14-14 1/2 |
| US Dollar | 14-14 1/2 | 14-14 1/2 | 14-14 1/2 | 14-14 1/2 | 14-14 1/2 | 14-14 1/2 |
| US Dollar | 14-14 1/2 | 14-14 1/2 | 14-14 1/2 | 14-14 1/2 | 14-14 1/2 | 14-14 1/2 |
| US Dollar | 14-14 1/2 | 14-14 1/2 | 14-14 1/2 | 14-14 1/2 | 14-14 1/2 | 14-14 1/2 |
| US Dollar | 14-14 1/2 | 14-14 1/2 | 14-14 1/2 | 14-14 1/2 | 14-14 1/2 | 14-14 1/2 |
| US Dollar | 14-14 1/2 | 14-14 1/2 | 14-14 1/2 | 14-14 1/2 | 14-14 1/2 | 14-14 1/2 |
| US Dollar | 14-14 1/2 | 14-14 1/2 | 14-14 1/2 | 14-14 1/2 | 14-14 1/2 | 14-14 1/2 |
| US Dollar | 14-14 1/2 | 14-14 1/2 | 14-14 1/2 | 14-14 1/2 | 14-14 1/2 | 14-14 1/2 |
| US Dollar | 14-14 1/2 | 14-14 1/2 | 14-14 1/2 | 14-14 1/2 | 14-14 1/2 | 14-14 1/2 |
| US Dollar | 14-14 1/2 | 14-14 1/2 | 14-14 1/2 | 14-14 1/2 | 14-14 1/2 | 14-14 1/2 |

Long term Eurodollar: two years 8 1/4-8 1/2 per cent; three years 8 1/4-8 1/2 per cent; four years 8 1/4-8 1/2 per cent; five years 8 1/4-8 1/2 per cent. Short term rates are for US Dollars and Japanese Yen; others, two day notice.

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TOKYO - Most Active Stocks

Tuesday July 3 1990

| | Stocks Traded | Closing Prices | Change on day | | Stocks Traded | Closing Prices | Change on day |
|--------------|------------------|-------------------|------------------|--------------------|------------------|-------------------|------------------|
| Citizen | 13.8m | 1,188 | +50 | Sekisui Chem | 7.9m | 1,280 | +10 |
| Honsha Paper | 12.4m | 2,500 | +100 | Shi-onu Chem | 6.5m | 1,080 | +40 |
| Chiyoda Corp | 9.8m | 2,680 | +50 | Yokote | 4.5m | 1,050 | +100 |
| Tokyo Steel | 8.9m | 4,780 | +80 | Asahi Organic | 4.4m | 1,220 | +80 |
| Nippon Steel | 8.8m | 930 | -15 | Daiichi Industries | 4.3m | 2,220 | +25 |

Some business travellers

will change neither hotel nor newspaper. That's why they are particularly happy to find complimentary copies of the Financial Times at the following hotels in Cannes: Hotel Carlton, Novotel Montfleury.

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

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FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

4pm prices July 3

Continued on page 41

NASDAQ NATIONAL MARKET

| Sales | High | Low | Last Chng | Start | Stop |
|-------|------|-----|-----------|-------|------|
|-------|------|-----|-----------|-------|------|

[illegible]

**4pm prices
July 3**

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AMERICA

Demand from institutions pushes Dow above 2,900

Wall Street

THE COMBINED forces of buy programmes related to stock-index arbitrage, and buying by institutions helped push equities higher yesterday in moderately active trading ahead of the Independence Day holiday, writes Karen Zagor in New York.

The Dow Jones Industrial Average crept above 2,900 for the first time since June 21, and closed up 12.37 points at 2,911.63.

On Monday, the Dow added 18.57 to close at 2,930.25.

Volume on the New York Stock Exchange was moderate, with 131m shares changing hands. Advancing issues led those declining by 825 to 647.

Institutional investors turned their attention to blue chip issues yesterday. Consequently, a number of blue chip stocks posted gains yesterday.

Merck added 1/8 to 89 3/4, Philip Morris gained 1/4 to 44 1/4. Boeing improved 1/4 to 56 3/4 and Woolworth's rose 1/4 to 34 1/4.

Among featured stocks, Kay Jewelers, which has received a takeover bid worth \$17-a-share from Ralston of the UK, fell 1/4 to 8 1/4.

The stock price was hurt by reports that the company's "junk" bond holders might block Ralston's stock-swap offer.

Greenman Brothers, which has agreed to sell its Circus World toy retailing business to Melville, jumped 1/4 to 37 1/4. Melville gained 1/4 to \$53. A number of toy company issues moved higher yesterday, including Mattel, which gained 1/4 to \$22 1/4 after the company said it expects second quarter sales to grow 16 per cent to \$315m.

In addition, Hasbro added 1/4 to \$18 and Tonka rose 1/4 to 36 1/4.

News Corp rose 1/4 to \$19 1/4 after chairman Mr Rupert Murdoch said it expected Sky Television to break even by the end of next year or beginning of 1992, after large operating losses in 1990.

Dallas Semiconductor fell 1/4 to 7 1/4 after Shearson Lehman downgraded its short-term investment rating of the shares on Monday and reduced its 1990 earnings forecast from 59 to 55 cents.

General Instrument, which added more than \$8 on Monday after accepting a takeover bid of \$44.50 a share from Forstmann Little, rose 1/4 to \$45 1/4 in heavy trading.

Secondary issues moved

lower amid worries about profits in the technology sector.

Mentor Graphics plunged 1/4 to \$17 1/4 after the company said it expected second quarter results to fall below analysts' expectations.

Alliant Computer, which similarly projected lower-than-expected results, fell 1/4 to \$6 1/4.

Foremost fell 1/4 to \$25 1/4 after failing to find a purchaser for the company. In late June, FAI Insurance backed out of a non-binding \$32 a share bid.

Canada

A STRONG showing by gold stocks helped the Toronto market close higher in slow trading.

The composite index rose 15.97 to 3,559.90 as gains led losers 275 to 263. Volume of 18.4m shares worth C\$180.8m was off from Friday's 20,663,800 shares valued at C\$241.2m. The market was closed yesterday for the Canada Day holiday.

Gold issues rose 1.74 per cent as gold in New York was up C\$3.50 to C\$361.75. Also posting gains of 1 per cent were transportation issues, mining stocks and industrial products shares. Energy stocks, consumer products shares and financial services issues traded flat.

Difficulties expected after unexciting week

By William Cochrane

CAUTION seemed to be the keyword at the end of last week. Goldman Sachs looked ahead to what it thinks could be a difficult couple of months for global equities, and the FT-Actuaries World Index finished June with a rise of 0.25 per cent on the week, and a fall of 2.1 per cent over the month.

By and large, performance was relatively unexciting. However, FG Inversores Bursatiles, the Spanish stockbroker, says it was surprised by its domestic market; it led the Continent with a relatively modest rise.

Spain was building on a good month. The country's economic performance has helped: on June 12, it announced an unchanged consumer price index for May, reducing the annualised inflation rate. FG notes that net purchases by international investors were Ptas12.4bn in May, more than twice the monthly average for January to April.

Meanwhile, Sweden lightened the Nordic gloom. After

an unhappy first quarter, on what were seen as the country's increasingly intractable economic problems, Stockholm fought back in April to June.

The economy seems to be improving. Turnover tax is to be abolished on share deals, and a feature last week was the way secondary issues seemed to be catching up with blue chips.

This low key performance is enhanced by comparison with Finland, where the domestic financial community is worrying about how to break the vicious circle of share price decline. Economic performance has been poor, and foreign investors have lost interest in the market. The hope is that signs of economic improvement, plus liberalisation of regulations for foreign ownership of Finnish shares, may soon make the difference.

In the Pacific Basin, Hoare Govett says that Hong Kong's performance last week, topping off a strong year since the aftermath of the June 4, 1989, atrocities in Peking, was founded on the release of a famous Chinese dissident, Professor Fang Lishi, and some

positive trade statistics. Singapore, on the other hand, was unable to build on the boost it got from news that the Government was raising the banks' foreign shareholding limit from 20 to 40 per cent. Originally this did a lot for bank shares, but then it became clear that Malaysian-owned holdings would be moved from the domestic to the foreign category; this left less room for manoeuvre in the banking sector, and the market subsided.

In the Americas, Mexico seemed to run into a brick wall. Uncertainty about the Telmex privatisation and about banking shares, and profit-taking after a long, long run-up took the equity market off the top. However, Ms Gillian Graham of Latin American Securities in London thinks that it can swing back, with specific fears resolved and interest rates continuing to fall.

South Africa, which plunged in early to mid-June as bullion fell to four-year lows, picked up again last week as gold shares were supported by a firmer bullion price and sharp losses in the financial rand.

MARKETS IN PERSPECTIVE

| | % change in local currency | | | % change sterling | % change in US \$ |
|--------------|----------------------------|---------|--------|-------------------|-------------------|
| | 1 Week | 4 Weeks | 1 Year | Start of 1989 | Start of 1988 |
| Austria | +1.34 | +4.87 | +81.29 | +38.51 | +30.03 |
| Belgium | -0.16 | -2.05 | -2.28 | -6.32 | -9.87 |
| Denmark | -1.56 | -1.09 | +7.43 | +2.47 | -1.65 |
| Finland | -2.04 | -3.18 | -14.48 | -1.95 | -6.39 |
| France | +0.31 | -3.26 | +13.85 | -0.44 | -4.85 |
| W. Germany | +0.51 | +1.71 | +27.00 | +6.31 | -0.19 |
| Ireland | -0.30 | -0.87 | +19.82 | +0.60 | -3.66 |
| Italy | +0.57 | -0.59 | +10.75 | +5.94 | -1.57 |
| Netherlands | -0.11 | -1.04 | +0.97 | -3.34 | -8.89 |
| Norway | -0.45 | -4.56 | +18.70 | +14.29 | +8.82 |
| Spain | +2.43 | +4.53 | -5.58 | -1.94 | -3.11 |
| Sweden | +1.96 | +4.62 | +23.38 | +14.05 | +8.21 |
| Switzerland | +0.33 | +0.04 | +10.11 | +2.55 | -3.28 |
| UK | -0.11 | +0.44 | +4.83 | -2.29 | -2.29 |
| EUROPE | +0.24 | +0.12 | +10.53 | +0.89 | -2.09 |
| Australia | -0.56 | -0.03 | +2.56 | -6.73 | -18.89 |
| Hong Kong | +1.01 | +3.73 | +43.88 | +16.92 | +7.01 |
| Japan | -0.15 | -4.62 | -8.03 | -21.01 | -31.04 |
| Malaysia | +0.21 | -1.82 | +26.18 | +0.79 | -7.24 |
| New Zealand | -1.61 | -1.86 | -4.39 | -9.12 | -16.72 |
| Singapore | -2.64 | -3.22 | +17.02 | +8.49 | +4.51 |
| Canada | +0.75 | -1.48 | -4.06 | -9.01 | -16.47 |
| USA | +0.58 | -1.42 | +10.98 | +1.14 | -8.92 |
| Mexico | -3.34 | -8.18 | +11.55 | +62.03 | +40.79 |
| South Africa | +5.89 | -4.08 | +17.78 | +2.74 | -16.80 |
| WORLD INDEX | +0.25 | -2.14 | +2.90 | -8.13 | -15.93 |

1 Based on June 28th 1988. Copyright, The Financial Times Limited, London, Sachs & Co., and Country Matrices Securities Ltd.

ASIA PACIFIC

Arbitrage activity helps to give Nikkei a lift

Tokyo

ARBITRAGE activity and a round of buying in special incentive stocks gave share prices a boost yesterday, but interest rate concerns continued to worry the market and trading was thin, writes Michelle Nakamoto in Tokyo.

The Nikkei average closed with a gain of 254.37 to the day's high of 32,414.60. The low for the day was safely above the 32,000 mark at 32,133.95. Volume, however, failed to breach the 500m level, although it rose to 450m shares against Monday's 350m.

Advances outnumbered declines by 547 to 383, while 192 issues were unchanged. The Topix index of all listed stocks edged up 0.78 to 2,349.48 and, in London trading, the ISE/Nikkei 50 index added 0.87 to 1,758.77.

In the morning the yen's strength triggered interest in domestic issues, while arbitrage activity also gave the Nikkei strong support. Towards midday, the unwinding of arbitrage positions reversed the earlier gains, before a further round of arbitrage buying, coupled with selective buying in special incentive issues, pushed the Nikkei back up to 32,414.60.

Buying interest was scattered. The domestic demand-led issues such as housing stocks, which were bought in earlier trading, mostly lost their shine by the end of the day but a few remained higher. Daiwa House closed Y10 up at 2,600, after rising to Y2,640 earlier. Nonferrous metals also advanced, with Sumitomo Metal Mining up Y90 to Y1,480.

The forthcoming Houston summit of the Group of Seven industrial nations, which will consider environmental issues, stimulated interest in this theme, which has been neglected recently. Chiyoda, a plant engineering company with advanced technology in environmental protection, added Y50 to Y2,690. It was third in volume with 9.5m shares traded.

Speculative issues also gained. Honshu Paper, the target of a speculative group, rose to a record high of Y2,930 before closing at Y2,900, up Y100. It was second in volume with 12.4m shares.

Citizen, the watchmaker expected to post record profits for the year to March 1991, topped the active list

with 13.6m shares and advanced Y50 to a high for the year of Y1,180.

High-technology issues drew buying in Osaka, where the OSE average gained 277.43 to 35,714.48. Turnover fell to 52m shares from 53m on Monday.

Roundup

POST-CRASH and record peaks were achieved in Hong Kong and Thailand respectively, while South Korea rebounded by 4.5 per cent yesterday. Singapore was closed for a holiday.

HONG KONG advanced 1.1 per cent to a second successive post-1987 crash peak, although profit-taking tipped shares prices off their day's highs. The Hang Seng index ended 37.08 higher at 3,356.55 after hitting 3,362.77 at midday. The index has risen 14.5 per cent in just over six weeks.

Turnover was heavy at HK\$2.16bn, up from Monday's HK\$2.05bn, with foreign and local investors active.

Laggards continued to catch up, with Hongkong & Shanghai

Hong Kong

Hang Seng Index

4000

3500

3000

2500

2000

1500

Oct 87 1988 1989 1990

Banking up 15 cents at HK\$6.10 and Hongkong Land Holdings rising 25 cents to HK\$8.60.

SEOL jumped 4.5 per cent on encouraging economic and political news. The composite index rose 31.86 to 745.04 in moderate trading worth Won111.9bn, up from Won93.5bn. By Monday's close, the market had fallen 12.4 per cent since June 4.

The announcement of a

trade surplus in June after five months of deficits, news that President Roh Tae Woo is to visit the Soviet Union and China, and progress at talks between South and North Korea helped shares to rally. The market stabilisation fund set up in May also bought heavily, boosting prices.

BANKOK reached another high in record volume, but profit-taking trimmed gains. The SET index gained 4.86 to 1,087.53 with a record 75.5m shares changing hands. Banks continued to advance on foreign demand, with many rising by the 10 per cent limit.

AUSTRALIA was lifted by several buy programmes, with the All Ordinaries index adding 16.2 to 1,512.8. Among the big winners, News Corp gained 45 cents to \$51.90, on expectations of improved earnings at some of its television businesses.

Barrick Mines, which has been given 17 days to solve its debt problems, fell 7 cents to 25 cents in the second biggest volume of the day of 4.19m shares.

Overall turnover was 88m shares worth \$231m, up from 68m and \$518m.

MANILA fell after the acquittal on Monday in the US of former First Lady Imelda Marcos on racketeering charges. Volume was thin. The composite index lost 17.72, or 2 per cent, to 862.45.

TAIWAN continued its decline after Monday's closure, with the weighted index falling 143.71, or 2.9 per cent, to 4,905.87. Large banks were among the main losers, with the sector's index falling 4.6 per cent. Turnover shrank to T\$32.9bn from T\$33.3bn.

NEW ZEALAND saw heavy trading in Robt Jones Investments following the company's roadshow in the US. Market turnover rose from Monday's NZ\$12m to NZ\$63m, including NZ\$45m worth of Robt Jones shares, which eased 1 cent to 99 cents. The Barclays index rose 5.65 to 1,779.35.

BOMBAY rose to another record as it responded after a three-day weekend. The BSE index added 12.38 to 862.88.

EUROPE

Fine tuning is order of day as bourses wait on events

FINE TUNING, rather than vigorous action, seemed to be the order of the day in bourses yesterday, as most markets appeared to be waiting on events, writes Our Markets Staff.

FRANKFURT, figuratively speaking, sat back after monetary union and its patriotic, 1.9 per cent rise on Monday. After a 2.14-point rise to 807.32 in the FAZ index at midsession, profit-taking came in and the DAX closed 9.07 lower at 1,906.23.

Mr Werner Wankke, head of securities at B Meteler in Frankfurt, observed that the decline, like Monday's rise, was driven by domestic institutions and traders. "We have come back to earth after a rally of over 100 points," he said. Volume stayed in the middle ground, at DM7.4bn.

There were risers at sector level where construction and retailers, seen as beneficiaries of German reunification, mostly improved, and chemicals and banks were mostly weaker. Modest profit-taking lowered the front-line blue chips. Siemens most noticeably with a DM5.50 fall to DM762.70.

Individual situations included Suedzucker recommended as an asset play and DM85 higher at DM1,010, and Munich Re, DM100 higher at DM2,400. This last was after another German insurer, AMB - suspended yesterday - said that a rights issue at DM500, nearly double Monday's market price of DM285, reflected its underlying asset value and the price that its Italian partner, La Fondiaria, was willing to pay for a stake of up to 5.8 per cent in AMB's equity.

MILAN was not kind to

insurance stocks, or equities in general. Fondiaria slid L1,090 to L58,900 after a fall of L500 on Monday and RAS dropped L550 to L25,850. Volume stayed thin, and this made it easier for traders to go short. Fiat continued its slide on prospects of a weaker 1990, down L110 at L9,790 in late trading.

The Comit index fell 3.74 to 741.38. Traders linked the hiatus in what has been a strong market recently to the negotiations between Italy's industrial

SHARES IN Bank IG, the leading private bank in Poland, rose 67 per cent above their issue price on their first day of trading on the Polish secondary market, which began operations on Friday, writes Jacqueline Moore. Only 14 shares were exchanged, out of the total issue of 15,000, at an average price of 1m zlotys (\$107), up 400,000 zlotys from the issue price of 600,000 zlotys.

The secondary market, which is run by Bank IG, will trade once a week. The bank is planning a 10-for-one split in its own shares, according to Mr Jerzy Kaminski of First Europe Equity & Bond Company of London, which is advising Bank IG. Other issues are expected to be traded soon, including Universal, the international trading company which is currently being privatised. Universal would be traded by September at the latest, said Mr Kaminski.

employers' association, Confindustria, and leading labour unions in the Government's effort to head off a general strike called for July 11.

STOCKHOLM hit a year's high, but trading was thin. The Affarsvarlden General index gained 11.8, or 0.9 per cent, to 1,320.9 in turnover of SKr231m.

Eriasson free Be continued to rise, adding SKr25 to SKr1,400. The Oslo bourse announced that NFT Eriasson Communications, which is jointly owned by a unit of the Swedish group and a Norwegian state-owned company, had won a big contract with Televerket, Norway's state telecoms company.

Saab-Scania fell SKr10 to SKr255 as speculation faded that Mr Peter Wallenberg, the Swedish industrialist, would bid for the company.

PARIS lost most of its modest early gains to finish little changed in quiet trading, tracking a similar movement in the domestic bond market. The CAC 40 index ended 2.44

up at 2,081.98, after reaching a day's high of 2,096.19.

Peugeot dropped FFr32, or 4 per cent, to FFr777 in the day's biggest volume of 274,850 shares, after an insect report said that demand for French cars had fallen in the last quarter. Perrier lost another FFr33 to FFr71.50 on profit worries.

Esso France, which had strengthened on Monday on hopes of a profitable property sale, fell FFr20 to FFr819.

The day's best improvement

was by SGE, the building group, which jumped FFr22.50 to FFr255 with only 30,300 shares traded, after a research company's buy recommendation. Club Mediterranee rose FFr14 to FFr64 before reporting slightly lower first-half net profits after the close.

AMSTERDAM was steady as Philips recovered some of Monday's fall. It rose 30 cents to Fl31.50, after falling Fl2.40 on Monday's warning of a loss this year. The CES tendency index was unchanged for a third session at 121.5.

ZURICH improved in line with a firming Swiss franc, which raised hopes of easier domestic interest rates. The Credit Suisse index closing 1.8 higher at 670.8. Sandos bearers rose SFr625 to SFr12,400 after a recommendation from Kleinwort Benson.

MADRID edged nearer to the 800 level on the general index, tracking a similar movement in the domestic bond market. The index gained 1.43 to 298.68.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

| NATIONAL AND REGIONAL MARKETS | TUESDAY JULY 3 1990 | | | | | | | MONDAY JULY 2 1990 | | | | | | | DOLLAR INDEX | | |
|--|---------------------|----------------|----------------------|-----------|----------------------|--------------|------------------|--------------------|----------------------|-----------|----------------------|--------------|------------------|-----------|--------------|-------------------|--|
| | US Dollar Index | Day's Change % | Pound Sterling Index | Yen Index | Local Currency Index | % Chg on day | Gross Div. Yield | US Dollar Index | Pound Sterling Index | Yen Index | Local Currency Index | % Chg on day | Gross Div. Yield | 1990 High | 1990 Low | Year ago (approx) | |
| Figures in parentheses show number of lines of stock | | | | | | | | | | | | | | | | | |
| Australia (60) | 143.20 | +1.1 | 119.30 | 136.82 | 122.91 | 119.48 | +1.1 | 5.82 | 141.82 | 119.05 | 135.40 | 122.08 | 118.21 | 158.31 | 126.58 | 132.00 | |
| Austria (19) | 200.56 | +0.9 | 217.08 | 248.98 | 223.86 | 223.86 | +0.8 | 1.29 | 258.28 | 217.13 | 248.94 | 222.18 | 222.18 | 283.83 | 195.18 | 128.71 | |
| Belgium (61) | 182.97 | +0.1 | 122.33 | 141.43 | 127.05 | 140.91 | +0.0 | 4.53 | 182.22 | 127.97 | 145.52 | 131.21 | 127.82 | 180.02 | 122.11 | 122.81 | |
| Canada (119) | 138.59 | +0.3 | 115.44 | 132.57 | 118.23 | 116.63 | +0.4 | 3.48 | 138.11 | 116.11 | 132.04 | 116.16 | 153.61 | 130.37 | 140.52 | 138.62 | |
| Denmark (33) | 280.71 | +0.7 | 217.21 | 249.10 | 223.78 | 223.04 | +0.5 | 1.30 | 258.59 | 217.73 | 247.82 | 223.24 | 221.91 | 281.19 | 236.69 | 202.56 | |
| Finland (29) | 109.10 | +0.0 | 115.02 | 129.38 | 116.23 | 110.28 | +0.2 | 2.48 | 116.70 | 115.70 | 129.38 | 116.70 | 115.70 | 129.38 | 116.70 | 110.28 | |
| France (124) | 161.85 | +0.4 | 134.88 | 154.44 | 138.74 | 140.54 | +0.0 | 2.91 | 181.08 | 135.42 | 154.00 | 138.84 | 140.58 | 141.99 | 121.51 | 141.69 | |
| West Germany (92) | 138.90 | +0.7 | 114.06 | 130.81 | 117.50 | 117.50 | +0.3 | 1.91 | 133.93 | 114.28 | 129.58 | 117.17 | 137.71 | 137.71 | 122.05 | 92.06 | |
| Ireland (17) | 103.18 | +1.1 | 115.94 | 132.98 | 118.45 | 138.11 | +1.1 | 4.51 | 137.59 | 116.67 | 131.55 | 116.61 | 137.55 | 139.18 | 112.24 | 96.25 | |
| Italy (96) | 107.10 | -0.3 | 102.43 | 112.43 | 98.43 | 105.43 | +0.4 | 7.52 | 105.43 | 98.43 | 112.43 | 105.43 | 98.43 | 112.43 | 105.43 | 98.43 | |
| Japan (454) | 148.72 | +0.0 | 123.91 | 142.10 | 127.87 | 142.10 | +0.0 | 0.59 | 148.88 | 124.88 | 142.13 | 128.18 | 142.13 | 142.13 | 179.26 | 144.04 | |
| Malaysia (58) | 230.66 | +0.9 | 165.72 | 220.37 | 187.58 | 240.43 | +0.2 | 2.25 | 230.24 | 165.58 | 220.11 | 186.46 | 230.52 | 204.15 | 181.76 | 181.76 | |
| Mexico (13) | 500.24 | -0.3 | 416.78 | 477.95 | 429.38 | 1586.16 | -0.2 | 0.33 | 501.52 | 421.63 | 476.49 | 432.30 | 432.30 | 432.30 | 432.30 | 432.30 | |
| Netherlands (43) | 502.84 | +0.5 | 119.01 | 136.47 | 127.08 | 121.18 | +0.1 | 0.45 | 142.14 | 119.54 | 135.95 | 122.57 | 121.04 | 145.68 | 130.43 | 120.92 | |
| New Zealand (17) | 56.61 | -0.2 | 54.57 | 52.99 | 56.96 | 56.96 | +0.1 | 7.52 | 56.48 | 55.05 | 52.91 | 56.48 | 55.05 | 57.58 | 57.58 | 56.64 | |
| Norway (13) | 200.20 | +0.2 | 165.72 | 182.74 | 173.74 | 193.15 | +0.2 | 0.53 | 165.72 | 182.74 | 173.74 | 193.15 | 193.15 | 193.15 | 193.15 | 193.15 | |
| Singapore (28) | 200.35 | +0.1 | 166.93 | 191.43 | 171.97 | 198.15 | +0.0 | 2.00 | 200.25 | 166.35 | 191.45 | 172.61 | 198.15 | 207.53 | 197.70 | 158.84 | |
| South Africa (60) | 176.79 | +0.4 | 147.29 | 168.91 | 151.74 | 158.05 | +0.0 | 3.76 | 176.05 | 148.01 | 168.32 | 151.75 | 158.05 | 251.39 | 170.00 | 150.28 | |
| Spain (17) | 174.09 | +0.8 | 145.08 | 163.17 | 148.59 | 148.59 | +0.7 | 4.00 | 172.17 | 144.74 | 164.81 | 148.59 | 148.59 | 174.09 | 132.84 | 150.24 | |
| Sweden (34) | 228.63 | +1.3 | 181.49 | 216.80 | 197.26 | 204.15 | +1.3 | 1.98 | 228.63 | 181.49 | 216.80 | 197.26 | 204.15 | 228.63 | 173.88 | 150.28 | |
| Switzerland (67) | 107.27 | +1.4 | 89.37 | 102.50 | 92.09 | 92.04 | +0.6 | 2.23 | 105.80 | 88.95 | 101.18 | 91.21 | 92.06 | 107.27 | 88.75 | 82.74 | |
| United Kingdom (304) | 170.79 | +0.8 | 145.08 | 163.17 | 148.59 | 148.59 | +1.1 | 4.77 | 168.28 | 142.40 | 161.93 | 145.99 | 145.99 | 170.79 | 139.87 | 162.71 | |
| USA (55) | 145.52 | +0.2 | 121.34 | 139.04 | 124.91 | 145.52 | +0.2 | 2.32 | 145.52 | 121.34 | 139.04 | 124.91 | 145.52 | 145.52 | 136.01 | 136.14 | |
| Europe (981) | 153.21 | +0.7 | 127.66 | 146.39 | 131.52 | 129.38 | +0.1 | 3.53 | 152.16 | 127.82 | 145.48 | 131.16 | 129.27 | 163.13 | 135.57 | 120.55 | |
| Nordic (116) | 212.73 | +0.9 | 177.24 | 203.25 | 182.60 | 178.03 | +0.7 | 1.89 | 210.91 | 177.31 | 201.65 | 181.80 | 178.72 | 212.73 | 195.01 | 163.59 | |
| Pacific Basin (659) | 148.03 | +0.1 | 123.38 | 141.43 | 127.05 | 140.91 | +0.0 | 0.92 | 147.86 | 123.31 | 141.37 | 127.46 | 140.75 | 192.73 | 124.63 | 170.77 | |
| Scandinavia (126) | 148.03 | +0.1 | 123.38 | 141.43 | 127.05 | 140.91 | +0.0 | 0.92 | 147.86 | 123.31 | 141.37 | 127.46 | 140.75 | 192.73 | 124.63 | 170.77 | |
| North America (635) | 145.00 | +0.2 | 120.81 | 135.56 | 124.48 | 143.90 | +0.2 | 0.22 | 145.00 | 120.81 | 135.56 | 124.48 | 143.90 | 145.00 | 135.56 | 124.48 | |
| Europe Ex. UK (977) | 141.12 | +0.6 | 117.57 | 134.96 | 121.18 | 121.26 | +0.2 | 2.72 | 140.29 | 117.28 | 133.14 | 120.94 | 121.03 | 141.12 | 124.51 | 106.48 | |
| Pacific Ex. UK (505) | 138.69 | +0.9 | 116.72 | 132.72 | 119.23 | 122.70 | +0.9 | 5.00 | 137.59 | 116.67 | 131.57 | 118.61 | 121.59 | 139.32 | 122.51 | 115.80 | |
| World Ex. USA (1022) | 145.00 | +0.2 | 120.81 | 135.56 | 124.48 | 143.90 | +0.2 | 0.22 | 145.00 | 120.81 | 135.56 | 124.48 | 143.90 | 145.00 | 135.56 | 124.48 | |
| World Ex. UK (2067) | 145.00 | +0.2 | 121.14 | 138.93 | 124.62 | 139.23 | +0.1 | 2.24 | 145.00 | 121.14 | 138.93 | 124.62 | 139.23 | 145.00 | 131.30 | 150.48 | |
| World Ex. So. Af. (141) | 147.47 | +0.3 | 122.87 | 140.92 | 126.60 | 139.35 | +0.1 | 2.49 | 147.05 | 123.83 | 140.61 | 125.77 | 138.21 | 161.84 | 131.96 | 142.18 | |
| World Ex. Japan (2917) | 148.57 | +0.4 | 123.02 | 141.98 | 127.54 | 138.32 | +0.2 | 3.49 | 147.36 | 124.39 | 141.48 | 127.56 | 138.09 | 148.57 | 134.82 | 126.60 | |
| The World Index (1871) | 147.85 | +0.3 | 123.02 | 141.08 | 126.75 | 139.48 | +0.1 | 2.50 | 147.23 | 123.78 | 140.77 | 128.92 | 139.34 | 162.05 | 132.25 | 142.23 | |